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*(The opinions expressed in articles in The Canadian Chartered Accountant are the opinions of the writers of the articles and are not necessarily endorsed by the Association.)*

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## Editorial Comment

### *Progress of the War*

The past month witnessed our second land offensive in this world war—the invasion of Sicily. The first of course was the conquest of north Africa; it was a colonial operation, vast in territory but involving only a small fraction of the military power of either side, and therefore was far from a conclusive test. The Sicilian campaign marks an increase in the scale, bringing the allied forces against a strongly defended part of the Kingdom of Italy, though still divided by water from the mainland. The conquest of a number of other stepping stones may be deemed necessary before the invasion of the continent begins. Nevertheless this second offensive step, after so many years of reverses, patient waiting and long term planning, should boost the morale of the allied nations and their friends. Concurring with other constructive operations in the Pacific sphere, it demonstrates the growth in the power and the organization of the allies. The end is still over the horizon, but the vast force of men and materials which has been accumulated for the purpose of concluding the war, is at last going into action.

*Price Structure  
in Danger*

When the Dominion government, upon its entry into the war, announced a policy of price stability, the nation breathed a sigh of relief, even though the announcement had to be accepted with reservations in view of the obvious difficulties. The subsequent years have been occupied with attempts to preserve this policy in the face of increasing upward pressure. Various devices, including wage stabilization via cost of living bonuses, the price ceiling, individual commodity controls, and subsidies, have been utilized in the effort to maintain the price front. Even though hopes were waning, they were still alive—until the United States, in place of adopting a similar policy from the start, allowed a wide measure of price inflation to develop. Now it in turn is attempting to turn back prices, by means of ceilings, wage stabilization and also subsidies. But it is handicapped by the cumulative effect of the increases which have already been allowed. These advances in turn are exerting more pressure on the Canadian level.

This situation reminds us that we are in an era of purely paper money, where there is no durable gold-price ratio upon which to fall back. Paper money, paper stamps, paper certificates and paper bonds are being poured out to millions of new creditors in order to finance the war. All of this paper is regarded by the holders as new assets, though at the same time the holders are, through the medium of the state, committed to treat them also as liabilities. The imminent danger of collapse of the price structure is due not so much to failure of price controls, which could not be expected to hold the fort against such a flood of expenditure, as to failure to withdraw spending power before it could take effect. The governments of both the United States and Canada have laid stress upon lending instead of spending, but this ignores the tendency of so many people, after one or a few token bond purchases, to let fly the remainder of their swollen purses on anything purchaseable. It was recently estimated that about one-third of the meat business in the United States is "black market", while open market prices for uncontrolled goods have gone to absurd heights. Whether the Roosevelt subsidy plan will be effective in checking and rolling back prices is problematical, but it is of vital importance to Canada.

*Our Annual Meeting*

Every member of the Association should by this time have received the completed programme for our 1943 annual meeting, along with the letter from the chairman of the Committee on Arrangements, and the reply card. The Ontario Institute has made every effort to provide convention arrangements suitable to the times and acceptable to those attending. While the meetings on Monday, 16th August, and on Tuesday morning, are confined to the Executive Committee, the Council and the Committee on Education and Examinations, the remainder of the sessions will be full of interest to all members. It is especially requested that a good number attend on Tuesday afternoon, which will be devoted to the annual reports and other general business of the Association. There will be no doubt about the attendance on Wednesday, because two subjects of intense interest to all chartered accountants will then be open for general discussion. On "Profit Control and Cost Audits of War Contracts" we have been fortunate in securing as speakers three prominent officers of the government—B. G. McIntyre, Comptroller of the Treasury, W. F. Williams, Associate Financial Adviser of the Department of Munitions and Supply, and F. E. Wood, Chief Cost Accountant of the Treasury-Cost Accounting Division. On "The T.2 Questionnaire" the discussions will be led by C. F. Elderskin, of Montreal, chairman of our Dominion Legislation Committee, and J. Grant Glassco, of Toronto, who is a member of the same committee.

*Is Income Tax Losing Ground?*

While the main cause of the current unpopularity of income tax has been its conflict with production and high earnings, at the same time it is being undermined by exemptions and exceptions which represent a departure from the all inclusive character which marked its earlier career. The almost unanswerable argument in favour of income tax was that it burdened only those with ability to pay, and in accordance with their ability to pay. The advance in rates to levels which discouraged effort on the part of those with the most ability to pay, which group naturally includes at least some of the most capable and energetic, was something which could not be foreseen, because it had not been expected that the government would

ever be so much in need of money as to ask anyone for ninety per cent, or even seventy-five per cent, of his income in the form of taxes. But the income tax advocates could always urge that, no matter what level of taxation should be reached, it would be share and share alike, with no class distinctions and no favours. This principle has now been abandoned, and with it has been swept aside the main support of income tax as the leading form of revenue. Superficially the war is to blame, for the exemptions of soldiers' pay and living expenses is the widest class exemption to date. A second group comprises those thinly disguised living, car and similar allowances which have been devised in some departments of the public service in order to foil the power of the branch which is trying to collect taxes. Of course unnecessary expense allowances of one kind and another also exist in private business, but the income tax division has declared war upon them to the death. This gives additional point to the remark of the judge in a recent case, to the effect that it was all right for one department of the Dominion government to invent a tax-free allowance but that, inferentially, it would be all wrong for any other government or any corporation to attempt this.

In addition to these exemptions, however, a great many more are creeping in. It was recently announced that men serving on board a certain government ship would receive tax free, extra pay on account of their special hazard and, in addition, and also tax free, the cost of living bonus. The \$660 exemption for married women who work is a wide example. There is a powerful and growing agitation to have all cost of living bonuses exempt. Altogether, there is accumulating plenty of evidence that the wedge which will ultimately wreck the income tax structure is widening.



## Municipal District Accounting

(The following brief was recently submitted to the Honourable the Minister of Municipal Affairs on behalf of the Alberta Association of Municipal Districts. It was prepared by Winspear and Hamilton, chartered accountants, Edmonton, and is released for publication through the courtesy of the Association and of Winspear and Hamilton.)

### Introduction

**T**HE Alberta Association of Municipal District Secretary-Treasurers, of about eighty members, comprising about 60% of all secretaries employed by organized municipal districts in this province, may be said to be representative of the current views and opinions of municipal secretaries. The association is dedicated to the development of the knowledge, skill and experience of its members, and to the advancement of efficiency, with a resulting improvement of the services which its members may perform as public servants. To that end the association holds refresher courses each year at the University of Alberta, and otherwise by meetings and inter-communication between its members endeavours to represent enlightened thought in municipal government, and to advance methods of efficiency in municipal administration.

In making this submission the association is conscious that the problem of obtaining maximum efficiency in municipal bookkeeping and finance is common to themselves, to the government of Alberta, to municipal councillors and other administrative officials, to the auditing profession charged with the responsibility of tabulating and certifying financial results, and to municipal taxpayers. Certain of the changes which the association now proposes have arisen by virtue of the creation of enlarged municipal areas. Other difficulties are of longer standing. If the fact that changes are now proposed should in any way be deemed to cast a reflection on the past administrations of either municipal districts, the provincial government or others (an inference the association by no means intends), then the members of the association associate themselves as being equally responsible in that they being the ones most closely and intimately associated with municipal bookkeeping routine, have not pressed more aggressively for the changes now proposed in this submission.

This submission will state in general terms the proposals which the association makes, and the benefits which it is expected would be derived from their implementation. As an appendix hereto the association also submits details of technical forms, methods, routine and audit procedure as supplementary to the information contained in the body of the brief. In so far as it is applicable the recommendations of a special continuing committee appointed at the inter-provincial conference of July 1937 under the chairmanship of Mr. J. R. Munro of the Dominion Bureau of Statistics, have been utilized with respect to the names and code numbers of accounts, and the classification of items of assets, liabilities, revenue and expenditures. This submission, its appendix and forms, has been prepared by a firm of chartered accountants employed by the association, but its general content has been discussed by members at the refresher courses previously referred to, the submission itself has been exhaustively studied by the directors and officers of the association, and the directors have called in for consultation, where possible, members at large known to possess skill and experience.

### **1. Methods of Levying Taxes**

In addition to the levy for ordinary municipal purposes the municipal districts in this province are required to levy and/or collect trust taxes for the provincial government in respect to social services, education, and wild lands, for reporting and rural schools and for hospital districts—six sets of trust taxes. In addition the district is required to record in the roll, or separately, such matters as advances for indigent relief, fodder and fuel oil, seed grain, pests and weeds, hail tax arrears, and the proceeds of the sale of tax sale lands. In the result, each district is required to maintain as many as six or seven ledger accounts for each taxpayer, showing the arrears brought forward, the levies, the penalties charged, cash collections, cancellations and discounts, and balances carried forward. Not only must this data with respect to taxpayers be separately maintained, but municipal secretaries are required to maintain anywhere from six to fifteen bank accounts. The bookkeeping and financial complications of the present effort to maintain a rigid accounting for funds and requirements of the separate levies are substantial. In the first place it is found in prac-

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tice that funds do get into the wrong bank accounts, necessitating complicated bookkeeping adjustments involving usually not only the transfer of funds between the bank accounts but adjustments to cash, bank and roll summaries. The statement of trust assets and liabilities, always a difficult statement for the average taxpayer to understand, is complicated by balances owing to and by the municipal funds and between the trust funds *inter se*. Furthermore a lack of uniformity of treatment obtains, and probably must obtain in the application of trust receipts as between municipal and trust balances. A proper accounting for trust funds in accordance with existing requirements entails not only the segregation of cash receipts and payments but the balancing of each fund's assets and liabilities separately in relation to the assets, obligations and surplus of each fund; a concept so complicated that it is not grasped by many municipal secretaries, and many auditors, with the ultimate result that the various asset and liability statements are not accurately prepared and that their purpose is thereby defeated. Furthermore certain trust liabilities are of a different category than others. For instance school receipts in excess of payments made to school districts constitute a liability of the fund in a proper accounting for trust funds. On the other hand school requisitions unpaid, or bank loans, also constitute a liability of the fund. It is difficult for the average taxpayer to grasp the distinction between such liabilities, however, and their relationship to the financial position of the district as a whole. It is, therefore, recommended that the respective acts and procedure be amended to enable the levying of one mill rate for all taxes, and that in that connection the following machinery be set up and maintained:

(a) That the municipal district include in its mill rate certain mills chargeable against parcels for social services taxes, wild lands taxes and so on, under the direction of the provincial government; that each school division or school district (including reporting schools) requisition the municipal district as at present, and that the municipality levy a sufficient rate in each school area for that requisition as at present; and that the same procedure be followed with respect to the hospital districts. It will be recognized that there would be three or four different total levies in the same municipal area, illustrated as follows:

Illustration 1—

Municipal Levy .....	20 mills
Social Services Levy .....	3 mills
School District No. 1 Levy .....	14 mills
Hospital District No. 2 Levy .....	3 mills

Illustration 2—

Municipal Levy .....	20 mills
Social Services Levy .....	3 mills
School District No. 3 Levy .....	10 mills
Hospital District No. 1 Levy .....	4 mills

(b) That each municipal district be required to prepare at the beginning of the year a budget divided on a monthly basis having regard to the month in the year in which the expenditure or the portion of the expenditure will be made. Such a budget is illustrated as exhibit "G" in the appendix to this submission.

(c) That the budget be filed with the Department of Municipal Affairs, be subject to revision by the Minister, and to regular supervision and comparison with actual expenditures.

(d) That under statute it be made an offense for a secretary, reeve or other municipal official to issue cheques or make payments for an amount in excess of the budgeted figure in the month in which it occurs.

It is considered that rigid adherence to the budget principle controlled by the supervision of the Department of Municipal Affairs would give the necessary protection to the provincial government, the school and hospital districts and other bodies on whose behalf the municipality collects taxes, and that it would reduce the possibility of monies being spent for municipal purposes which should actually be paid to other bodies. As a further measure of protection, however, it is suggested that consideration be given to one of the following alternatives:

(1) That all monies be deposited to a trust bank account; that at the end of each month the secretary be empowered to transfer from the trust bank account such a proportion of the total receipts for the month as the municipal levy bears to the total budgeted revenue for the entire year. To illustrate this procedure, assume that the total revenues levied for the year are as follows:

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### Budgeted Revenue

For Municipal Purposes .....	\$12,000.00
For Social Services .....	3,000.00
For Wild Lands .....	1,000.00
For Educational Taxes .....	1,000.00
For School District No. 1 .....	4,000.00
For School District No. 2 .....	2,000.00
For Hospital District No. 1 .....	2,000.00
For Hospital District No. 2 .....	1,000.00
	<hr/>
	\$26,000.00
	<hr/>

Then since the municipal levy comprises 12/26 of the total levy, 12/26 of each month's receipts would be transferred to the municipal bank account and made available for meeting municipal obligations. The remainder would remain in trust to meet trust obligations, thus representing a measure of protection to the bodies on whose behalf the municipal district acts as trustee. It is recognized that in certain districts the proportions of collections of school taxes for example, may exceed or be less than the proportion which the levy of that school district bears to the total levy, and to that extent the amount remaining in the trust bank account may be slightly more or slightly less than the actual requirements. At the end of the year such small differences should correct themselves, however, and would not in any event be large. It is submitted that the fact that the requisition of the trust body becomes a direct obligation of the municipal district, and that the budget will be rigidly controlled would give ample protection to the trust bodies. This procedure is recommended as a measure of protection where the municipal district will be borrowing from the bank, and the danger might arise that taxes levied for other than municipal purposes might be applied on bank loans.

(2) As an alternative it is suggested that certain instances the municipal district be required to apply the first receipts each year after paying necessary operating costs including direct administrative expenses, to its obligation for trust taxes, and that such receipts be placed in the trust bank account.

The adoption of the single levy, in the opinion of the association, would necessitate a reconsideration of the situa-

tion relating to arrears of taxes. The association considers that the present procedure of differentiating tax arrears as between municipal and other purposes fails to take into consideration the realities of the situation, which are that each taxpayer should think in terms of his total arrears whether to the municipal district or to other bodies, that tax recovery proceedings are identical, that funds borrowed from the bank for school, hospital or other purposes have a direct effect on the credit of the municipal district, and that ultimately the tax rate must be set at a figure which the taxpayer can afford to pay having regard to the law of diminishing returns. In certain instances such incongruities have existed as municipal districts paying interest on large loans from the bank for school and hospital purposes whilst possessing substantial balances in the municipal bank account, or *vice versa*. Such a procedure, it is submitted, is unnecessarily wasteful of public funds. It is therefore suggested that the title to all tax arrears be transferred to the municipal district, and that if certain bodies such as hospital districts or schools or the provincial government, feel that such a procedure is likely to cause a measure of hardship in depriving them of the collections of arrears of taxes, they may be permitted to demand from the municipal district for a limited term of years (two or three), an amount corresponding to that which they would have received from the current levy plus arrears, and that the mill rate be set accordingly. In that connection, however, it is pointed out that according to the annual reports of the Department of Municipal Affairs for the nine years from 1932 to 1940 inclusive, total collections were \$25,180,000, as compared with a total levy of \$25,737,000—a variation of only slightly more than 2% between the collections and the current levy.

## 2. Taxroll

Submitted as exhibit "A" in the appendix is a form of loose leaf tax ledger, which the association recommends should be adopted. It is recognized that officials of the Department of Municipal Affairs have for a number of years advocated a form of loose leaf card or Kardex form of tax roll, but the problems of instituting such a record have been complicated by the numerous taxes which must now necessarily be levied. It is considered that the institution of a

loose leaf or kardex tax roll, and the advantages which are discussed in this section, are dependent upon the adoption of the single levy discussed in Section 1.

The advantages of the loose leaf tax ledger may be summarized, in the opinion of the association, as follows:

(1) The necessity of transcribing each year details of the taxpayer's name, the description of the property, the assessment and the arrears carried forward, would be removed. One secretary reports that he spends most of the months of March and April performing these functions, and one of the new consolidated units reports that the work of carrying forward the arrears and opening the new tax roll constitutes six weeks' steady work for one trained employee. This administrative time would be saved. Moreover the individual tax records are immediately available for posting the new year's collections, instead of waiting for the preparation of a new roll as at present.

(2) In the proposed ledger system the taxpayer's balance may be extended after each entry; in the present system there is no provision for extending a tax balance except at 31st December. Information instantly available as to the amount currently owing at any time is of course an obvious advantage in favor of the ledger system.

(3) At the end of the year it is necessary for the secretary to balance the roll but this function cannot be performed until the individual tax balances have been extended and the tax roll has been closed for the year. With a loose leaf record tax balances are extended after each entry and the ledger could, therefore, be balanced each month.

(4) Separate controlling accounts could be maintained for each division or section of the tax roll and each division could be balanced separately. At present if an error is made in one parcel it is possible that the entire tax roll involving the transactions of the entire year will have to be checked before the error is located. If the taxes for each division are balanced separately, errors will be localized and the work of balancing greatly reduced. Certain secretaries report that it ordinarily takes two or three weeks at the end of each year to close off the books and balance the rolls.

(5) In the new consolidated areas the administrative offices have not so far been enabled to exploit the principles of the division of labor which is generally true in commer-



cial offices. If tax ledgers through the loose leaf method are sectionalized and separately controlled, junior office employees may be placed in charge of their own sections and made responsible for balancing their own work.

(6) The difficulties of the present tax roll and bookkeeping system generally are not so obvious in small municipal districts as they are in the new consolidated units. It is submitted that loose leaf tax ledgers giving the advantages of flexibility are equally adaptable to the requirements of the smaller as well as the larger district. This may be illustrated with respect to machine bookkeeping. It is submitted that it may well be to the advantage of the larger areas to utilize bookkeeping ledger machines, cash registers and so on. In that connection it is the opinion of members of the association affected that such administrative advantages of the larger units as have been advocated by their proponents are not being fully felt and will not be felt until changes in municipal bookkeeping and finance of the type described in this brief, have been implemented. At the present time an enlarged area consolidating three smaller municipal districts, is in effect continuing to maintain the same books and do the same work and to employ approximately the same staff as formerly.

### **3. Penalties**

The entering of penalties in the tax rolls ordinarily takes three weeks' work. This amount of time would be cut down of course by the implementation of the single levy. It would also be substantially reduced by reducing the number of penalty dates. At present municipal districts ordinarily charge two penalties, one on July 1 and the other on December 16, and they are empowered to allow discounts at various dates throughout the year. It is suggested that the incentive to tax collections in charging more than one penalty is not commensurate with the bookkeeping and administrative time involved, and it is therefore recommended that penalties be limited to one penalty in the early part of each year, and that the power to allow discounts be rescinded, or at least restricted.

### **4. Tax Consolidation Agreements**

It is recommended that legislation with respect to tax consolidation agreements be rescinded.

### 5. Financial Statements

It is submitted that the financial statements submitted to taxpayers by rural municipalities are unduly complicated and difficult for the average taxpayer to understand. They therefore tend to defeat their purpose of interesting a taxpayer in the affairs of his municipal district. The statement of receipts and payments tends to be misleading in that it must necessarily be true that the municipal district disburses in the course of a year an amount approximating that which it collects from its taxpayers, or borrows. The average taxpayer finds it difficult to understand that certain receipts, such as relief charges repaid, assets sold, costs collected and bank loans incurred are not actually revenue of the district. On the other hand it is just as difficult to grasp that payments on bank loans, on tax recovery costs, or purchases of equipment are not actual expenditures relating to the cost of operations in the year of payment. Furthermore it is not usually grasped that operating costs are affected by the increase or decrease in accounts payable and other liabilities, or that the increase or decrease in the municipal cash balance does not necessarily indicate the excess of municipal revenues over expenditures for the period.

The standardized municipal bookkeeping system recommended by the continuing committee of the inter-provincial conference of July 1937 provides for the presentation of annual statements in the form of revenue and expenditure rather than in the form of cash receipts and disbursements. The increase or decrease in liabilities and assets which is of paramount importance to every taxpayer is not ordinarily recognized, and in effect the statement of assets and liabilities is not an essential part of the present bookkeeping system, and very often does not reflect accurately the financial position of the municipal district. It is, therefore, recommended that an annual report of a detailed and statistical nature be made to the Department of Municipal Affairs, but that a more simplified statement of revenue and expenditure and a balance sheet, with possibly some pertinent statistics be forwarded to taxpayers. Such a simplified report is illustrated in exhibit "H" of the appendix.

### 6. Double Entry Bookkeeping System

At present, whereas books of original entry and tax rolls are maintained on such a basis that the control of

double entry bookkeeping methods may easily be followed through, it is not generally the practice for a municipal secretary to maintain a general ledger and to exploit the advantages of the control to its logical conclusion. It is recommended that a general ledger become a part of the bookkeeping system of the municipal district, and a schedule of general ledger accounts, together with forms for cash receipts books and cash payments books are submitted as exhibits "D" "E" and "F" in the appendix hereto. The type of statement which was referred to in Section 5 presupposes a double entry bookkeeping system.

### Conclusion

Certain of the recommendations contained in this submission may be implemented by departmental regulation. Others would require legislative enactment such as the amendment of section 6 of the *Wild Lands Tax Act*, section 9 of the *Social Services Tax Act*, section 338 of the *Municipal District Act*. An attempt has not been made in this submission to summarize the legislative enactments or amendments which would be necessary. Rather, attention has been given to matters of general principle and to matters of bookkeeping and financial technique.

## APPENDIX

### Exhibit "A"—Assessment and Tax Ledger

It will be observed that all the relative material relating to the assessment, ownership, title and mill rates are contained at the top of the sheet. The details of the balance together with statistical data as to tax notifications and notices are contained lower down. Each ledger sheet will therefore, contain details of the levy, penalties, costs, cash and cancellations relating to a taxpayer for a number of years, dependent on the size of the sheet. Furthermore statistics are immediately available as to the total of such levies, collections, penalties and so on for a period of years. The balance due by the taxpayer can be extended at any time, and the roll can be balanced on any day of the year. Sheets for each subsidiary ledger as controlled by controlling accounts comprising possibly a division (or a smaller breakdown if it is considered advisable), may be kept in separate binders. The sheet may be readily adapted to ledger and bookkeeping machine methods.

### Exhibit "B"—Adding Machine Summary

The adding machine summary can be used for:

- (a) summarizing the levy
- (b) summarizing the penalties
- (c) taking off a trial balance of the tax roll.

It will be observed that each parcel, in the roll and assessed by the

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district, would be printed in the right hand column so that the auditor may easily check the individual levies and penalties to the tape. Since the details are listed on the adding machine the totals may be quickly and accurately obtained. For audit purposes a further check is obtained in the fact that the auditor can examine the tape with particular reference to the parcels which have not been subject to levy, penalty and so on. It is submitted that this adding machine summary will give all the audit control now contained in the tax roll.

### **Exhibit "C"—Tax Ledger Summary**

It is proposed that the tax ledger be summarized under divisions in sections, each of which would comprise a controlling account. These controlling accounts would then be totalled to a grand summary, and the grand summary would give information as to the total levies, penalties, costs, collections and miscellaneous credits for the entire district. Each section of the subsidiary tax ledger could be balanced as often as the secretary chooses throughout the year. In this illustration the "V" to the right hand of the balance indicates that the subsidiary tax ledger of division 2 was balanced on March 31, July 31 and December 31. The secretary may for example, organize his time by balancing one division each month.

### **Exhibit "D"—Cash Receipts Book**

Under the single levy method and by the use of the controlling accounts previously described the cash receipts book would be very much simplified. There would be two columns for receipts, being cash and labour applied on taxes, and one column for payments. For audit purposes it will be easy to confirm that the total cash has gone into the bank, and the danger of lapping and kiting would be reduced; separate controlling accounts would be maintained for each division or section comparing with the summaries maintained and described in 4.

By maintaining a separate column for road-work credits, provision is made for the simplification of records and statistics for applying tax credits on labour road sheets.

### **Exhibit "E"—Cash Payments Book**

It is proposed that all expenditures be made by cheque as at present, and that the imprest petty cash system be followed. The cash payments book would be very much the same as that already in existence. Instead of maintaining anywhere from six to fifteen bank accounts, the district would be required to maintain only one, or at the most, two. The adoption of the revenue and expenditure method of maintaining the records and reporting results would open the door for a substantial saving in time in applying labour road sheets on taxes, removing the necessity for the issuance and endorsement of individual cheques for each such application.

### **Exhibit "F"—Schedule of General Ledger Accounts**

The general ledger accounts would be written up from the totals of the tax roll, cash book summaries and so on. The maintenance of this record is not difficult, and in fact may be attended to once a year. This is a duty which for the first year at least might be undertaken by the auditors until such time as the secretaries generally familiarize themselves with the process. From the general ledger the statement of revenue and expenditure and the balance sheet would be prepared,

together with statistical statements to be submitted to the Department of Municipal Affairs. The account headings contained in this chart have been devised to conform with the recommendations of the continuing committee in standardized municipal bookkeeping and reporting.

Since the accounts would be maintained on a revenue and expenditure rather than a receipt and disbursement basis, certain transactions would be recorded through an adjustment journal, such as labour applied on taxes, referred to in exhibit "E".

### **Exhibit "G"—Budget**

Under a single levy basis the budget becomes of primary importance. It will be necessary not only for the council to make appropriations for each type of expenditure, but to decide the month in which each expenditure will be made. It is recommended that expenditures may only be made previous to the month in which they are budgeted with the sanction of the Department of Municipal Affairs. The budget would be the basic method of controlling the activities of the district not only by the secretary and the council, but also by the department.

In the budget forms presented it will be observed that the first step will be to prepare the monthly budget of expenditures. The master budget will then be prepared. From experience the secretary will know with reasonable accuracy, the months in which tax collections will be made, which may vary somewhat however due to local or special conditions. The secretary will, therefore, be able to forecast in advance the bank balance on hand at the end of each month, and if necessary, make arrangements for bank loans in advance. Since a copy of both the master budget and the monthly expenditure budget will be forwarded to the department, the reasons for a substantial reduction of bank balances will be quickly noted and enquired into, thereby affording a maximum protection to trust funds.

Under a monthly budget system road work sheets would necessarily be prepared at least once a month, could not cover a period exceeding one month, and would not permit of the overlapping of payments from one month to another.

### **Exhibit "H"—Annual Financial Statements**

The balance sheet, statement of revenue and expenditures, and their supporting schedules are devised to be as simple and readable as possible. The net revenue on the statement of revenue and expenditures will reconcile the surplus carried forward from year to year on the balance sheet. It will include only items of actual revenue and actual expenditure in the year incurred, thus giving regard to the increases and decreases in the assets and liabilities of the district. Certain statistical data as to the assessment, percentages of the levy collected, remuneration to councillors and officials, and public works expenditures by divisions are submitted in the supporting schedules.

The trust balance sheet would disappear and the municipal balance sheet, or a statement of assets and liabilities, would be in much the same form as at present, except that all outstanding taxes would appear as an asset and that unpaid requisitions would appear as a liability. The surplus would reconcile from year to year with the balance forward at the beginning, plus or minus the net revenue or net excess of expenditures over revenue for the year.

These statements have been devised to conform with the recommendations of the continuing committee on the standardized municipal bookkeeping of the inter-provincial conference of July 1937.

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## Exhibit "A"

Account No.

### ASSESSMENT AND TAX ROLL—MUNICIPAL DISTRICT OF .....

Name and Address	Seizures, Assignments and Rentals
.....	.....
.....	.....
.....	.....

Title No.	Land Description
.....	.....
.....	.....
.....	.....

#### Levy

	1942	1943	1944	1945	1946	1947	1948	1949	1950
Mun.	...	...	...	...	...	...	...	...	...
S.S.	...	...	...	...	...	...	...	...	...
School	...	...	...	...	...	...	...	...	...
Educ.	...	...	...	...	...	...	...	...	...
Hosp.	...	...	...	...	...	...	...	...	...
Total	...	...	...	...	...	...	...	...	...

#### Assessment

	1943	1944	1945	1946	1947	1948	1949	1950
Land	...	...	...	...	...	...	...	...
Impr'ts	...	...	...	...	...	...	...	...
Minerals	...	...	...	...	...	...	...	...
Bus. Tax	...	...	...	...	...	...	...	...
Other	...	...	...	...	...	...	...	...

#### Public Sale

#### Private Sale

#### Final Acquisition

Date	Tax Notification Filed	Tax Notification Released	Tax Notice Mailed	Folio
Balance Forward				
July 1, 1942	.....	....	10th May	37
July 1, 1942	.....	.....	.....	.....
December 10, 1942	.....	.....	.....	.....

#### Debit

#### Credit

Misc.	Costs	Penalties	Levy	Cash	Canc'tion	Balance
....	....	....	....	....	....	145.00
....	....	....	135.00	....	....	280.00
....	....	14.00	....	....	....	294.00
....	....	....	....	100.00	....	194.00

THE CANADIAN CHARTERED ACCOUNTANT

Exhibit "B"

ADDING MACHINE SUMMARY

Of .....

No.....

Date .....

Amount	Land Description			
	Sec.	Twp.	Rge.	Mer.
\$220.00	NE 3	45	14	4
226.00	NW 3	..	..	..
25.32	SE 3	..	..	..
....	SW 3	..	..	..
4.58	NW 4	..	..	..
1.20	SE 4	..	..	..
....	SW 4	..	..	..
....	NE 5	..	..	..
2.65	NW 5	..	..	..
23.56	SE 5	..	..	..
99.85	SW 5	..	..	..
1.25	NE 6	..	..	..
....	NW 6	..	..	..
125.42	SE 6	..	..	..
23.65	SW 6	..	..	..



## Exhibit "C"

## TAX ROLL SUMMARY

## Division 2

Date	Remarks	Folio	Costs and Misc.	Debit	Credit
Dec. 31, 1941	Balance forward				Balance \$18,076.00
Mar. 31, 1942	Receipts to date	C.B. 26			\$3,075.00
Mar. 31, 1942	1942 Levy	Summary 4		\$22,078.00	16,001.00
Mar. 31, 1942		C.B. 26	600.00		37,079.00
July 31, 1942	Penalty	Summary 7		\$35.00	37,679.00
July 31, 1942	Receipts to date	C.B. 37			38,514.00
July 31, 1942	Endd. C.B. Div. 2				34,454.00
July 31, 1942	In error—See Div. 3		50.00		
Dec. 31, 1942	Additional Levy	Summary 14		700.00	34,504.00
Dec. 31, 1942	Penalty	Summary 15		940.00	35,204.00
Dec. 31, 1942	Costs	C.B. 45	225.00		36,144.00
Dec. 31, 1942	Receipts to Date				36,369.00
				\$5,900.00	30,469.00
			\$875.00	\$1,775.00	\$13,035.00

## TAX ROLL SUMMARY

## Grand Summary

Date		Balance	Costs	Misc.	Cash	Balance
1942		Forward	Misc.			
.....	Division .....	7,350.00	\$100.00	\$ 650.00	\$ 8,400.00	\$ 8,525.00
.....	Division .....	18,076.00	875.00	1,775.00	13,035.00	30,469.00
.....	Division .....	.....	.....	.....	.....	.....
.....	Division .....	.....	.....	.....	.....	.....
.....	Division .....	.....	.....	.....	.....	.....
.....	Division .....	.....	.....	.....	.....	.....
.....	Hamlet of Blank .....	.....	.....	.....	.....	.....
.....	Grand Total .....	.....	.....	.....	.....	.....

THE CANADIAN CHARTERED ACCOUNTANT

Exhibit "D"

MUNICIPAL DISTRICT OF No.  
CASH RECEIPTS BOOK—YEAR  
(The following indicates the headings of this form.)

Amount						Bank	
Date	Particulars	Rec. No.	Cash	Labor	Applied	Deposit	
....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....
<i>Receipts on Taxes and Costs</i>							
Div. 1	Div. 2	Div. 3	Div. 4	Div. 5	Div. 6	Hamlet	Hamlet
....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....
Pests						Pters.	Sundry
and	Commissions	Interest				....	....
Weeds	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....

Exhibit "E"

MUNICIPAL DISTRICT OF No. 66  
CASH PAYMENTS BOOK—YEAR  
(The following indicates the headings of this form.)

Divisional Expenditures					
				No. 1	No. 2
Date	Particulars	Ck. No.	Amount	Labor Mtls.	Labor Mtls.
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
Divisional Expenditures					
No. 3	No. 4	No. 5	No. 6		
Labor Mtls.	Labor Mtls.	Labor Mtls.	Labor Mtls.		
....	....	....	....		
....	....	....	....		
....	....	....	....		
Administration					
L.T.O.	Office Staty.	Exchange	Telephone	Sundry	
....	....	....	....	....	
....	....	....	....	....	
....	....	....	....	....	
Prot. of Person and Prop.	Social Services	Health	Relief and Grants	Pctra.	Sundry
	....	....	....	....	....
	....	....	....	....	....
	....	....	....	....	....
	....	....	....	....	....

# MUNICIPAL DISTRICT ACCOUNTING

## Exhibit "F"

### SCHEDULE OF GENERAL LEDGER ACCOUNTS

Code No.	ASSETS	Code No.	LIABILITIES
1	Cash	1	Bank Overdraft
11	Petty	2	Temporary Loans
12	General	3	Accounts Payable
13	Bank—Municipal	31	Sundry
14	Bank—Trust	4	Long Term Indebtedness
2	Investments	41	Machine Notes
3	Accounts Receivable	5	School Requisitions Unpaid
4	Taxes Receivable	6	Provincial Government
5	Properties held for Sale	61	Social Services Requisition Unpaid
6	General Fixed Assets	62	Wild Lands Requisition Unpaid
61	Office Lot	7	Hospital Requisition Unpaid
62	Office Building	8	Other Liabilities
63	Office Equipment	9	Reserves for
64	Machinery	81	Uncollectible Taxes
7	Due from Other Funds	82	Depreciation (General Fixed Assets)
8	Other Assets	10	Surplus
81	Inventory of Supplies		
82	Prepaid Expenses		
9	Deficit		

  

REVENUE	EXPENDITURE
1	1
11	1
12	2
13	3
14	4
2	5
3	6
4	61
5	62
6	63
61	64
62	7
63	71
64	8
7	81
8	82
9	9
10	

THE CANADIAN CHARTERED ACCOUNTANT

Exhibit "G"

MASTER BUDGET

Prepare in duplicate—sending one copy to the Department of Municipal Affairs.

	Estimated Receipts			Estimated	Budgeted
	Taxes	Other Revenue	Total	Expenditure	Bank Balance
Bank Balance Forward ....		....	....	....	....
January .....		....	....	....	....
February .....		....	....	....	....
March .....		....	....	....	....
April .....		....	....	....	....
May .....		....	....	....	....
June .....		....	....	....	....
July .....		....	....	....	....
August .....		....	....	....	....
September .....		....	....	....	....
October .....		....	....	....	....
November .....		....	....	....	....
December .....		....	....	....	....
Total .....		....	....	....	....

ACTUAL PERFORMANCE

	Actual Receipts			Actual	Budgeted
	Taxes	Other Revenue	Total	Expenditure	Bank Balance
Bank Balance Forward ....		....	....	....	....
January .....		....	....	....	....
February .....		....	....	....	....
March .....		....	....	....	....
April .....		....	....	....	....
May .....		....	....	....	....
June .....		....	....	....	....
July .....		....	....	....	....
August .....		....	....	....	....
September .....		....	....	....	....
October .....		....	....	....	....
November .....		....	....	....	....
December .....		....	....	....	....
Total .....		....	....	....	....

# MUNICIPAL DISTRICT ACCOUNTING

## Exhibit "G" (continued)

### BUDGET

Prepare in duplicate—sending one copy to the Department of  
Municipal Affairs.

Month of .....

Details	Year to Date			Month of		
	Estimates	Actual	Variance	Estimates	Actual	Variance
<i>Requisitions</i>						
School #1 .....	....	....	....	....	....	....
School #2 .....	....	....	....	....	....	....
Hospital #1 .....	....	....	....	....	....	....
Hospital #2 .....	....	....	....	....	....	....
Social Service .....	....	....	....	....	....	....
Wild Land .....	....	....	....	....	....	....
Educational .....	....	....	....	....	....	....
<i>Administration</i>						
Secretary-Treas. ....	....	....	....	....	....	....
Other Salaries .....	....	....	....	....	....	....
Council Fees .....	....	....	....	....	....	....
Audit Fees .....	....	....	....	....	....	....
Printing & Stationery. ....	....	....	....	....	....	....
Postage .....	....	....	....	....	....	....
Telephone .....	....	....	....	....	....	....
Rent .....	....	....	....	....	....	....
Elections .....	....	....	....	....	....	....
Sundry .....	....	....	....	....	....	....
<i>Protection of</i>						
<i>Person &amp; Property,</i>						
<i>Social Services,</i>						
<i>Health, Relief</i>						
<i>and Grants</i>						
Constable .....	....	....	....	....	....	....
Pound .....	....	....	....	....	....	....
Pests and Weeds .....	....	....	....	....	....	....
Weed Inspector .....	....	....	....	....	....	....
Old Age Pensions .....	....	....	....	....	....	....
Mothers' Allowance ...	....	....	....	....	....	....
Child Welfare .....	....	....	....	....	....	....
<i>Provincial Training</i>						
School .....	....	....	....	....	....	....
Hospital Bills .....	....	....	....	....	....	....
Doctors .....	....	....	....	....	....	....
Unemployment Relief .	....	....	....	....	....	....
Indigent Relief .....	....	....	....	....	....	....
Grants .....	....	....	....	....	....	....

**THE CANADIAN CHARTERED ACCOUNTANT**

**Exhibit "G" (continued)**

**BUDGET**

Prepare in duplicate—sending one copy to the Department of  
Municipal Affairs.

Month of .....

Details	Year to Date			Month of		
	Estimates	Actual	Variance	Estimates	Actual	Variance
<i>Public Works</i>						
Div. 1 Labour .....	....	....	....	....	....	....
Materials .....	....	....	....	....	....	....
Supervision .....	....	....	....	....	....	....
Div. 2 Labour .....	....	....	....	....	....	....
Materials .....	....	....	....	....	....	....
Supervision .....	....	....	....	....	....	....
Div. 3 Labour .....	....	....	....	....	....	....
Materials .....	....	....	....	....	....	....
Supervision .....	....	....	....	....	....	....
Div. 4 Labour .....	....	....	....	....	....	....
Materials .....	....	....	....	....	....	....
Supervision .....	....	....	....	....	....	....
Div. 5 Labour .....	....	....	....	....	....	....
Materials .....	....	....	....	....	....	....
Supervision .....	....	....	....	....	....	....
Div. 6 Labour .....	....	....	....	....	....	....
Materials .....	....	....	....	....	....	....
Supervision .....	....	....	....	....	....	....
Machinery Purchases .....	....	....	....	....	....	....
Road Allowances .....	....	....	....	....	....	....
W. C. B. ....	....	....	....	....	....	....
<i>Sundry Expenditures</i>						
Total .....	=====	=====	=====	=====	=====	=====

# MUNICIPAL DISTRICT ACCOUNTING

## Exhibit "H"

### BALANCE SHEET

As at .....

<i>Assets</i>		<i>Liabilities</i>	
Cash .....	.....	Bank Overdraft .....	.....
Petty Cash .....	.....	Temporary Loans .....	.....
General Cash .....	.....	Accounts Payable .....	.....
Trust Bank .....	.....	Long Term Debentures .....	.....
General Bank .....	.....	Machine Notes .....	.....
Investments .....	.....	School Requisition Unpaid .....	.....
Accounts Receivable .....	.....	School District No. 1 .....	.....
Sundry .....	.....	School District No. 2 .....	.....
Due from Province .....	.....	Provincial Government .....	.....
Taxes Receivable .....	.....	Social Services Requisitions Unpaid .....	.....
Properties Held for Sale .....	.....	Wild Lands Requisition Unpaid .....	.....
General Fixed Assets .....	.....	Other Liabilities .....	.....
Office Lot .....	.....	Reserves for .....	.....
Office Building .....	.....	Uncollectible Taxes .....	.....
Office Equipment .....	.....	Depreciation (General Fixed Assets) .....	.....
Machinery .....	.....	Surplus .....	.....
Due from Other Funds .....	.....	Balance December 31, 1940 .....	.....
Other Assets .....	.....	Add: Surplus for the year ended December .....	.....
Inventory of Supplies .....	.....	31 .....	.....
Prepaid Expenses .....	.....	Balance December 31 .....	.....



# Exhibit "H" (continued)

## STATEMENT OF REVENUE AND EXPENDITURE

For the fiscal year ended .....

<i>Revenue</i>		<i>Expenditures</i>	
Budget		Budget	
Taxation .....	.....	General Government, per Schedule "1" .....	.....
Tax Levy .....	.....	Protection of Person and Property .....	.....
Penalties .....	.....	Destruction of Pests and Weeds .....	.....
Less: Cancellations .....	.....	Pound expenses .....	.....
Licenses and Permits .....	.....	Public Works per Schedule "2" .....	.....
Rents .....	.....	Sanitation and Waste Removal .....	.....
Law Enforcement (Fines) .....	.....	Conservation of Health .....	.....
Investment Earnings .....	.....	M. H. O. ....	.....
Service Charges .....	.....	Doctor .....	.....
Commissions .....	.....	Public Welfare per Schedule "3" .....	.....
Sanitary and Other Services .....	.....	Education .....	.....
Recreation and Community Services .....	.....	School No. 1 Requisition .....	.....
Grants and Subsidies .....	.....	School No. 2 Requisition .....	.....
Tax Sale Surplus .....	.....	Provincial Government .....	.....
Miscellaneous .....	.....	Social Service Requisition .....	.....
		Wild Lands Requisition .....	.....
		Education Requisition .....	.....
		Hospitalization .....	.....
		Hospital Requisition .....	.....
Total Assessment .....	.....		
Total Levy .....	.....	Excess of Revenue over Expenditures .....	.....
Percentage of Levy to Assessment .....	.....		

# MUNICIPAL DISTRICT ACCOUNTING

## Exhibit "H" (continued)

### Schedule "I"

#### GENERAL GOVERNMENT

##### Salaries

Secretary-Treasurer .....	.....
Audit Fees .....	.....
Elections .....	.....
L. T. O. ....	.....
Postage .....	.....
Printing and Stationery .....	.....
Rent .....	.....
Exchange .....	.....
Insurance .....	.....
Telephone .....	.....
Delegates .....	.....
Councillors' Fees (Meetings only) .....	.....
M. D. Association Fees .....	.....
	=====
	=====

#### EXPENDITURES TO COUNCILLORS FOR MEETINGS

Div.	Name of Councillor	No. of Meetings	Days	Rate	Mile Rate	Amount
1	....	....	....	....	....	....
2	....	....	....	....	....	....
3	....	....	....	....	....	....
4	....	....	....	....	....	....
5	....	....	....	....	....	....
6	....	....	....	....	....	....
7	....	....	....	....	....	....
Reeve						
Sec. 61 (3a)	---	---	---	---	---	---
	....	....	....	....	....	....
	=====	=====	=====	=====	=====	=====

THE CANADIAN CHARTERED ACCOUNTANT

Exhibit "H" (continued)

Schedule "2"

PUBLIC WORKS

	Div. 1	Div. 2	Div. 3	Div. 4	Div. 5	Div. 6	Ham- lets	Gen- eral	Total
Budget	....	....	....	....	....	....	....	....	....
Expenditures	....	....	....	....	....	....	....	....	....
Labour	....	....	....	....	....	....	....	....	....
Cash Payment	....	....	....	....	....	....	....	....	....
Applied on	....	....	....	....	....	....	....	....	....
Taxes	....	....	....	....	....	....	....	....	....
Applied on	....	....	....	....	....	....	....	....	....
Relief	....	....	....	....	....	....	....	....	....
Materials &	....	....	....	....	....	....	....	....	....
Supplies	....	....	....	....	....	....	....	....	....
Supervision	....	....	....	....	....	....	....	....	....
	=====	=====	=====	=====	=====	=====	=====	=====	=====

EXPENDITURES TO COUNCILLORS FOR SUPERVISION

Div.	Name of Councillor	Days	Rate	Miles Rate	Amount
1	.....	.....	.....	.....	.....
2	.....	.....	.....	.....	.....
3	.....	.....	.....	.....	.....
4	.....	.....	.....	.....	.....
5	.....	.....	.....	.....	.....
6	.....	.....	.....	.....	.....
7	.....	.....	.....	.....	.....
	=====	=====	=====	=====	=====

INVENTORY OF EQUIPMENT

Description	No. of Each	Valuation Dec. 31 1941	Purchased During 1942	Total	Deprec. During 1942	Valuation Dec. 31 1942
Office	....	.....	.....	.....	.....	.....
Office Equipment	....	.....	.....	.....	.....	.....
Tractors	....	.....	.....	.....	.....	.....
Graders	....	.....	.....	.....	.....	.....
(Elevating)	....	.....	.....	.....	.....	.....
Graders (Blade)	....	.....	.....	.....	.....	.....
Maintainers	....	.....	.....	.....	.....	.....
Fresnos	....	.....	.....	.....	.....	.....
Scrapers	....	.....	.....	.....	.....	.....
Drags	....	.....	.....	.....	.....	.....
Plows	....	.....	.....	.....	.....	.....
	=====	=====	=====	=====	=====	=====

Schedule "3"

PUBLIC WELFARE

Unemployment Relief	.....
Indigent Relief	.....
Grants	.....
Old Age Pensions	.....
Mothers' Allowance	.....
Child Welfare	.....
Provincial Training School	.....
Sanatorium	.....
Doctors' Bills	.....
Hospital Bills	.....

## Income Tax Deductions from Wages

W. W. Pollock, chartered accountant, St. Catharines, Ontario, forwards to THE CANADIAN CHARTERED ACCOUNTANT the following copy of a letter written to The Honourable Colin Gibson, Minister of National Revenue, incorporating suggestions for relieving the present tendency towards absentee-ism on account of income tax deductions from wages.

"It has been very noticeable in this district that the individual working man is prone to purposely miss work for a day or two a week in order to reduce his income tax deduction, as he feels that the 6th day results in only nominal remuneration in view of the effect of the income tax deduction tables. He does not realize that this extra tax will serve him in good stead at the year end when his remaining liability will be smaller than otherwise.

"There is appended hereto tables showing the amount of income tax deduction at the source which the worker can avoid through absence from work for one day a week, and for two days a week under the present system. It will be noted that a married man without savings who misses work for one day a week avoids \$3.20 tax. (His daily pay is \$5.00).

"It occurs to me that this weakness which certainly retards the war effort can be overcome. It is suggested that a firm having this difficulty should, when the worker is present fewer than 6 days in a week, make tax deductions on a daily basis, which would mean that for a 5 day pay a \$40.00 a week married man (without savings) would have \$1.15 additional tax deducted that week than if the tax were calculated from the weekly table. For a 4 day week the difference in deduction would be \$3.25.

"The working man is not concerned with building up a credit of income tax at the year end nor is he worried about paying his 5% balance as during the year he seems to ignore it thoroughly, therefore, the loss of an additional \$1.15 from his pay would probably reduce the present incentive to be absent.

"A still more effective measure, and one easier for the employer to administer, would be that of taking full tax every week and ignoring absences, except on presentation of a doctor's certificate. Under this plan the department

would have a greater number of rebates to make, but the unclaimed rebates would more than pay for the additional work caused by rebates.

"The plan would have to be compulsory for all businesses so that the working man would not be encouraged to leave one plant for another."

Table Showing Amount of Income Tax Deductions  
Which a Worker Avoids by Working only 5 Days a Week

STATUS	Pay for		Pay Loss	Tax Deducted		Difference one day	Net Pay Loss
	6 days	5 days		6 days	5 days		
M—No Savings	\$30.00	\$25.00	\$ 5.00	\$ 4.40	\$ 1.20	\$ 3.20	\$ 1.80
M—Full Savings	30.00	25.00	5.00	2.20	.60	1.60	3.40
S—No Savings	30.00	25.00	5.00	7.15	5.25	1.90	3.10
S—Full Savings	30.00	25.00	5.00	4.85	3.35	1.50	3.50
M—No Savings	40.00	33.33	6.67	8.50	5.60	2.90	3.77
M—Full Savings	40.00	33.33	6.67	4.70	2.80	1.90	4.77
S—No Savings	40.00	33.33	6.67	11.65	8.35	3.30	3.37
S—Full Savings	40.00	33.33	6.67	8.60	5.85	2.75	3.92
M—No Savings	60.00	50.00	10.00	17.20	12.70	4.50	5.50
M—Full Savings	60.00	50.00	10.00	11.50	7.95	3.55	6.45
S—No Savings	60.00	50.00	10.00	21.10	15.90	5.20	4.80
S—Full Savings	60.00	50.00	10.00	16.55	12.10	4.45	5.55

Table Showing Amount of Income Tax Deductions  
Which a Worker Avoids by Working only 4 Days a Week

STATUS	Pay for		Pay Loss	Tax Deducted		Difference two days	Net Pay Loss
	6 days	4 days		6 days	4 days		
M—No Savings	\$30.00	\$20.00	\$10.00	\$ 4.40	\$ —	\$ 4.40	\$ 5.60
M—Full Savings	30.00	20.00	10.00	2.20	—	2.20	7.80
S—No Savings	30.00	20.00	10.00	7.15	3.40	3.75	6.25
S—Full Savings	30.00	20.00	10.00	4.85	1.90	2.95	7.05
M—No Savings	40.00	26.67	13.33	8.50	2.15	6.35	6.98
M—Full Savings	40.00	26.67	13.33	4.70	1.05	3.65	9.68
S—No Savings	40.00	26.67	13.33	11.65	5.80	5.85	7.48
S—Full Savings	40.00	26.67	13.33	8.60	3.80	4.80	8.53
M—No Savings	60.00	40.00	20.00	17.20	8.50	8.70	11.30
M—Full Savings	60.00	40.00	20.00	11.50	4.70	6.80	13.20
S—No Savings	60.00	40.00	20.00	21.10	11.65	9.45	10.55
S—Full Savings	60.00	40.00	20.00	16.55	8.60	7.95	12.05

## Rationing In Canada

By John F. Close

*Chartered Accountant*

**Montreal**

*Editor's Note:* This is a copy of an address by Mr. Close, who is a special assistant in the Ration Administration of the Wartime Prices and Trade Board, before a meeting at Sir George Williams College, Montreal, on 11th February 1943, with some later revision in accord with subsequent changes in the rationing regulations.

**T**HIS evening we are talking on rationing, something which had not even been contemplated a year ago. Let me explain that I am not an official spokesman of the Wartime Prices and Trade Board. I am just on their staff, and what I am saying tonight cannot be construed as an official statement of Board policy. However, I am here to interpret the present rationing regulations to you, and hope that you will be able to carry away some idea of the problems involved and the way in which they are being tackled. There are five principal headings under which I am going to tackle the problem:

1. Introduction
2. History of rationing in Canada
3. Organization of the administration
4. Rationing problems
5. Conclusion.

### Introduction

Before coming to the point, it is desirable to give you some of the background which makes a consumer rationing program necessary. At the last meeting Mr. Mitchell went into some detail describing the Wartime Prices and Trade Board and its policy with regard to prices. The subject tonight follows logically on Mr. Mitchell's talk because it is price control which leads inevitably to rationing.

It is essential to stress one basic economic fact which is familiar already to all of you—namely, the age-old law of supply and demand. When people start to bid for the same commodity, the natural tendency is for the price of that commodity to rise. In all previous wars this phenomenon has been most noticeable, but in this war an artificial barrier—the price ceiling—has been put in the way of normal economic action. Prices have not been permitted

to follow their course; correspondingly, efforts have been made to keep down purchasing power by draining it off in loans and taxes, and by clamping a ceiling on wages.

However, the tremendous business activity has reflected itself in record employment figures, and the public as a whole has never enjoyed such large spending power. At the same time, restrictions have been placed on the production of commodities which has aggravated the problem as more people have more money and there is less to spend it on.

There are two ways of coping with this situation. One is to do nothing and let the public buy up the existing stock and then there is no more unless substitutes are found. It is obviously undesirable to follow this plan in the case of commodities which are essential to the welfare of the community, so one turns to the alternative—namely, some system of rationing.

There are several methods of rationing; it does not have to be on a coupon basis. You can ration goods on a priority basis or an allocation basis, or on a certificate of necessity basis. In each of these cases there is rationing in the sense that distribution is not left to the normal trade mechanism. For instance, in the case of some articles which are in short supply it is necessary to file an application with the Department of Munitions and Supply: if the Department approves the application, it will issue a certificate which the applicant gives to the dealer, before the dealer may release one from his stock. The mechanics of rationing along these lines usually involve freezing the stocks in the hands of manufacturers and dealers, obtaining the inventory reports and then doling out the supply in accordance with the certificates. Dealers are held responsible to the Department for the disposal of their stock. This type of rationing is extensively used when the supply of manufacturers' prime materials is short, and some method of allocating the stocks is needed. It is not suitable for widely used commodities normally purchased in small quantities.

When the rationing of foodstuffs is involved, a different problem is faced, particularly where the foodstuff in short supply is a basic necessity. In such a case there are two solutions. One is to tell the public of the shortage and ask them to co-operate by observing the ration. This is called



the "honour" system, and it works very well when the conditions are favourable. For instance, in 1941 there was a big campaign to get bacon for England and Canadians were asked not to buy. We didn't and the bacon campaign went over. Then, in the winter of 1941-42, the Wartime Prices and Trade Board introduced the honour rationing system on sugar. This worked well for a while, until the pressure became too great and consumer coupon rationing was introduced in July 1942.

### History of Rationing in Canada

This gives you the background of rationing in general. Let us now turn to the Canadian rationing system in greater detail. It begins with the arrival in Ottawa on 23rd March 1942 of Mr. S. B. Millen, to join the staff of the Wartime Prices and Trade Board. At that time no coupon rationing was contemplated and Mr. Millen was given the thankless task of secretly studying plans for meeting an emergency he was told would never arise. As the year wore on, it became more and more likely that consumer rationing would be required, so he was given a bigger staff and they became known as the "allocation branch". By this time, those in the know realized the inevitable and in June Mr. Millen was advised that the decision to ration sugar had been taken.

It was fortunate that it was sugar which was the first commodity requiring to be rationed because sugar is the ideal commodity on which to base a rationing scheme. It is consumed by nearly everybody, it is cheap, it is widely distributed, yet there are only some eighteen refiners—the prime producers—in the whole of Canada. Furthermore, sugar had been under the able control of the sugar administration since the outbreak of war. Since that date there has been the closest liaison between the sugar and ration administrations, and we of the rationing end cannot exaggerate the assistance we have received from the sugar people.

Once the decision to ration was made, the next problem was to obtain a register of all consumers so that they could receive their books. Rationing is essentially a simple job, made difficult by sheer volume. If you look at the country as a whole, you are at once baffled by the complex nature of administering any rationing plan. But take one small

area and work out a plan for rationing that area. Suppose the area has 100,000 inhabitants and you calculate that it will require fifteen people to administer rationing. It then becomes a mere mathematical problem to find out how many areas containing 100,000 people there are and what staff is required to handle the complete job.

Nonetheless, no matter how good the organization was in theory, it was realized that there would be difficulties in practice so it was decided to issue a temporary card and to use the temporary card as a medium for registering all Canadians so that when a permanent card was issued, most of the spelling mistakes, duplications and omissions would have been rectified. The campaign for distributing this card took place one week in June and was handled through the post office with the assistance of thousands of volunteer workers right across the country.

Application cards were distributed through the post offices and each Canadian family completed an application. These applications were picked up and collected on the basis of postman's beats and formed the basis of all rationing records. This method of issuing them enabled the administration to develop a combined numerical and alphabetical index and a system was devised so that this index is kept continuously up to date.

The temporary card was issued in conjunction with the first sugar rationing order, Wartime Prices and Trade Board Order No. 159, and was designed to last ten weeks on the basis of half a pound per week. During the period while the temporary card was in force, the decision to ration tea and coffee was taken and it was decided that these two commodities were sufficiently interchangeable to require only one set of coupons, and a ratio of four to one was established so that a coupon is good for either two ounces of tea or eight ounces of coffee. The order establishing tea and coffee rationing, Wartime Prices and Trade Board Order No. 166, became effective August 1942.

Meanwhile, work had progressed on writing up the permanent ration books which were distributed in the first week of September to all Canadians who had completed application for a temporary sugar card. By and large, all Canadians received their book in this period. Only a very small percentage being omitted, but, even a very small per-

centage of 12,000,000 people is a substantial figure and it is realized that a fairly large number failed through improper completion of forms to get their books. However, such residents were able to write in to their nearest ration office explaining why their books had not been delivered and were able to be fixed up in the end.

### Organization of the Work

It might at this point be worthwhile giving some account of the organization of the ration administration, which is just one branch of the Wartime Prices and Trade Board. As you know, the Wartime Prices and Trade Board is set up under order-in-council with Mr. Donald Gordon as chairman. He reports to Mr. Ilsley who is responsible to parliament and, through parliament, to the people of Canada and is responsible for the actions of the Wartime Prices and Trade Board. The board itself is divided up somewhat as follows: head office divisions, associated government-owned incorporated companies, and the various administrations such as the foods administration, the metals administration and the ration administration, with which we are principally concerned tonight. Each administration is supervised by an administrator appointed by order-in-council and the administrator of consumer rationing is Mr. P. A. Woodward of Vancouver. The headquarters of the ration administration are located in Montreal and it has twenty-eight branch offices scattered across the Dominion, including a Montreal branch office in the Aldred Building. The headquarters of the organization are presided over by Mr. Woodward himself, assisted by Mr. H. I. Ross and Mr. O. W. Rodomar. The organization is divided into divisions each headed by a member of the management committee. Mr. C. K. Highmoor, who has now returned to his bank, performed the important task of installing a system capable of bearing the load which it is expected will be thrust upon it. The total personnel of the ration administration as at 1st June was nearly three hundred and eight but this figure is moderate when compared with the numbers employed in other countries where rationing is in force.

This is not the entire organization. The whole emphasis of rationing is that it is a co-operative effort. There is only a limited amount of certain foods to go around and the people themselves should, in their own interests, en-

deavour to arrange it so that a fair share of these is had by all. Naturally, consumers who are unorganized cannot achieve this so that the ration administration exists to frame the necessary organization, but, with only twenty-eight offices, it is not possible to reach down to the individual. To achieve a liaison between the public and the administration, a system of local ration boards was established in nearly six hundred communities across Canada. These boards are on a voluntary basis and generally under the chairmanship of a mayor or reeve. Their function is to act as the link between the administration and the public and they have certain authority to adjust supplies of rationed commodities in the areas where they have jurisdiction. They also perform the major task of distributing the ration books to consumers through Canada.

#### Rationing Problems

This, I hope, has given you all some idea of the impact of rationing on the consumer. I now propose to turn to a much more complicated and less known feature of rationing. That is, what goes on behind the scenes. If the collection of coupons from the consumer was all that mattered, rationing would indeed be a simple task but that is the very least of our worries. Our principal worries include handling the vast mass of coupons and coping with those categories other than household consumers who need rationed goods. For instance, every restaurant needs sugar, tea, coffee, meat and butter. The army needs supplies and ocean-going vessels which call at Canada's ports need to be restored.

To assist the administration in handling coupons of all users of rationed commodities, except household consumers, the Wartime Prices and Trade Board drew on the resources of the Canadian banking system. Since 1st March the banks have co-operated with us\* and I will now explain where they fit into the picture, as they have two functions. First let me deal with their relations with the wholesale trade, and this can best be illustrated by following through what happens to an ordinary coupon handed in by a consumer.

Let us follow an imaginary Mrs. Smith into her neigh-

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\*See the "Monthly Review—The Bank of Nova Scotia" for March, April and May, 1943—their volume XVII, No. 9.

bourhood store at Como. She has a family of four. She comes in and buys two weeks' supply of sugar for each member of her family. She gives up four coupons and takes back four pounds of sugar. Gradually, the owner, Joe Levack, collects 100 coupons. Then, he in turn takes his coupons on his weekly trip into Hudson for supplies and goes to a larger store where he buys a 100 lb. bag of sugar. This larger retail store collects coupons from several different small retailers and he in turn buys from a wholesaler, only he buys 1,000 lbs. turning over 1,000 coupons. The wholesaler who collects coupons from a great number of different retailers, buys from a still larger wholesaler. Obviously it would be impractical each time a rationed commodity is bought or sold for wholesalers to trade thousands of coupons among themselves, so the wholesaler operates a ration coupon bank account where he disposes of all coupons and other ration documents which he receives. When he buys rationed commodities he merely issues a cheque in favour of his supplier. In the case of prime suppliers, such as sugar refineries, the coupon bank account tends to build up an indefinite credit balance so that a certified cheque in favour of the ration administration is issued each month to clear out the account. This cheque is submitted in conjunction with a monthly report to the administration. In addition to wholesalers and prime suppliers certain large retailers also operate ration coupon bank accounts but this privilege in the case of retailers is limited to those whose monthly gross sales in foods exceed \$5,000. For those whose volume of sales is lower than \$5,000 provision is made for coupons and other ration documents to be exchanged at any branch bank for what is called a bank transfer voucher, which is not unlike a bank draft. Banks will not accept coupons in lots of less than 250. To quote from the Bank of Nova Scotia's Review:—"Thus, ration coupon banking has reduced the handling of coupons, eliminating much of the possibility of loss and fraud which would be involved in many repeated transfers; it has relieved offices of the ration administration of the detailed work of receiving coupons, checking them; and in general has greatly simplified for all concerned—retailers, wholesalers, suppliers, and the Administration—the routine

and detail work inseparably connected with any system of coupon rationing."

I still have not explained how restaurants and institutions get their supplies. These classes of users of rationed commodities are all engaged in serving meals so they are allotted a quota of rationed commodities based on the number of meals served. Collectively this group are all known as quota users and there are some 36,000 across the country. A quota user is defined in the rationing Orders\* as follows: ". . . a person who buys or uses a rationed commodity for the purpose of serving meals or refreshments for other than his personal or household consumption." Every quota user is required to be registered with the administration and to operate a ration coupon bank account for each rationed commodity which he uses. His quota is sent to him from the ration administration by ordinary mail on a quota authorization form (RB-108) the original of which is taken to the bank and serves as a justification to setting up a credit in the coupon bank account. All ration coupon bank accounts are kept in terms of consumer coupons which, in the currency of rationing, take the place of pennies in the monetary system. They are the lowest common denominator. When the quota user buys his commodities he issues a ration cheque expressed in coupons in favour of his supplier. For instance, if he is buying forty-five pounds of sugar he issues a ration cheque of forty-five coupons in addition to making the usual money payment.

Now let me refer to the other category of users of rationed commodities, namely, the Department of National Defence which includes the army, navy, air force, etc. These users are entitled to all they require. There is no purpose in restricting them and the ration administration certainly does not make any effort to control their orders although, as a matter of fact, they themselves exert every effort to use as little as possible of the rationed commodities. The method by which this class of users acquire their commodities is by completing a simple requisition RB-21, copies of which you have before you.

There is still another class of user which I might call miscellaneous. They are the people who run into emergen-

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\*Wartime Prices and Trade Board Orders Nos. 242, 243, 244, and 276.

cies and require extra supplies or a storekeeper whose store is burned down or burgled and needs to replenish his stock, or a diabetic who requires extra butter. To take care of the needs of these people, we have "special purchase permits" covering different kinds of rationed commodities and these permits are issued by our ration offices.

I have described to you how the consumer coupons flow from the consumer up through the trade channels and into the prime producers of the commodities. These other documents, these requisitions, quota authorizations and special purchase permits which you have been looking at follow the same route although they may start from a point higher up in the channel. Collectively, these documents are known as ration documents and each of them shows the coupon value of the authorization. They travel from the user to his supplier and thence to the bank. The bank in turn passes them on to the ration administration for scrutiny.

I have not said much about the rationing of specific commodities tonight and a few words on this subject might be of interest. At the present time tea, coffee, sugar, butter and meat are rationed on a coupon basis. The first three commodities mentioned are all imported from abroad through a relatively small number of importers and control over distribution and consumption is a veritably simple matter but in the case of butter and meat the situation is entirely different. Canada on a *per capita* basis is one of the largest producing countries in the world and normally has a large surplus available for export in both commodities, notwithstanding the fact that at times both butter and meat (lamb) are imported from New Zealand and Australia. At the present time various demands on our butter stocks arising from military and other war sources have resulted in a less than normal increase in the butter available for civilians while, at the same time, the increased incomes and the price ceiling on butter have aggravated the problem, leaving the government with no alternative but to ration. A similar condition exists in meat where the North American continent's military and lend-lease obligations have required the governments of Canada and the United States to take action to see that the supplies of butter and meat available to civilians are distributed fairly. Unlike sugar, for instance, in the case of butter anyone



with a cow is a prime producer so that there have to be differences between the rationing systems which will obviate or minimize the difficulties inherent in having so many uncontrolled producers.

One method which is used for coping with this problem is to make butter and meat coupons expire after a certain period in the hands of consumers so that those prime producers who do not purchase meat and butter but consume their own product lose the use of their coupons after a certain period. All coupons becoming usable before the 15th of the month expire on the last day of that same month; all coupons becoming usable between the 15th and the end of the month expire on the last day of the following month so that no coupon is valid for less than two weeks or more than six.

There is only one other point I would like to mention before throwing the meeting open for questions and that is to answer a criticism which is very frequently levelled at the rationing administration. People ask why we do not register the consumer with a local retailer just as they do in England. The answer to this question is that in England the distribution of food is completely controlled by the food ministry. England is a large importer of food whereas Canada is a large producer of food and it would mean a revolution of the normal Canadian trade channels if we were to adopt the English practice. There is no trick at all to compel citizens to register with retailers but it then becomes essential to impose a rigid control of distribution of foodstuffs to these retailers and no one feels it desirable to regiment trade more than is necessary.

I have tried in this paper to give you an outline of the Canadian rationing system. It really is surprisingly simple, and the difficulties only arise because we are dealing with 12,000,000 consumers and 40,000 quota users, each one of whom has a slightly different problem. Our rationing orders are framed as simply as possible, and while they are short as orders go, they would be much shorter if it were not necessary to anticipate many exceptional cases, and provide legislation to deal with them. Again I did not feel justified tonight in going into the interesting details of our work, on which we could easily spend a whole night. For instance, I could have described in detail the steps which



led us to the decision to consider persons living in remote areas—Canada's northwest territories—as being off the ration. But I hope I have been able to show you something of what rationing is and how it is being achieved.

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## Democracy—A Creditman's Viewpoint

By William Davidson  
Toronto

**T**HE American continent, which has not as yet felt the devastation of war and we hope never shall, is the arsenal of democracy in this second world war. Even now it is essential however, to plan and prepare for the days of peace. Where now our natural resources enable us to forge weapons of war, we also have the means of feeding the starving millions that will haunt the Asiatic and European continents when the armies of aggression cease to stride over a prostrate world.

We are a people who prefer to follow our hearts but are compelled to follow the reasoning of our minds. We know we must preserve our way of freedom, yet the suffering of human beings, the waste of life and property, forbids our taking war as a natural sequence of life. We who live on this continent have learned to respect our fellow men who come from all creeds and races. Through our educational standards and high ideals we have elevated ourselves above the prehistoric ideas that prevail in other parts of the world. There is no super race theory, only humanitarianism in our aims. We must not fail to realize that this happy unity we are privileged is due to the opportunities we offer to all men to live decently and honourably. The Atlantic charter guarantees this opportunity to all nations who desire to share our way of life.

### The Business Cycles

For years, prior to the outbreak of hostilities, we passed through alternate periods of great heights of prosperity and staggering depths of depression. In later years we were just recovering from a prolonged stagnation of business. These cycles of depression and prosperity are due to the combined effects of the last struggle, the evolution of our standards of living from an agricultural country to

an industrial nation, and our inability to cope with economic balance. There is no need in this bountiful world for any nation or people to take up arms against its neighbour in a struggle for security from want. The way we can overcome this now and for years to come is to insure ourselves against such possibilities by appointing wise men to councils of the world who will make certain that industry serves mankind and not mankind in bondage to industry.

How well I remember when just a boy, I received great delight in going down to the docks in Halifax, to watch ships of all nations bringing their loads to our ports and carrying away Canadian goods. Many ships came to that port, some of which will never come again. One day I saw a ship loaded with wheat. It remained tied to the wharf for a week then sailed away still carrying its load, but later it returned empty. I talked with the crew and learned, that as they had no space for the wheat in our elevators, they had taken it and dumped it into the sea. To protect prices they wasted a gift of nature and the product of man's labour, at a time when European nations needed bread and Canadian men were tramping the streets in search of work. We cannot accuse this world of having too many people or too little food, too many workers and too little work. The scales of supply and demand are not so easily tipped as some would have us believe. The only law that affects the demand is the ability of the people to purchase the goods produced. This is the creditman's task for the security of the future—"find the means of making it possible to increase the purchasing power of the world"—raise world standards to new levels not drive them down to the old.

### **Contrary Tax Policy**

For years in good times our government has removed burdening taxation when money is abundant only to increase the burden when our economic system begins to slow down and money becomes scarce. Taxes must be raised in prosperous years to finance public works when private industry cannot supply work for the people. Civic taxation should likewise be flexible enough to permit the home owner to have relief when his income is curtailed or stopped, for it is not sound policy to allow taxes to become confiscatory in action and thus sweep away the labour of a lifetime. Tax when the people have the means to pay, and then only,

is the solution. The creditmen and the bankers who control our credit systems must likewise follow a policy of easing the burden upon Canadian business. Curtailing credit or calling in loans due to a temporary recession can lead to panic. History proves this in a comparison of the main features of seven panics in the world, reveals a challenging but interesting series of events to the credit executive.

### **The Historical Record**

It is a history of short-sighted credit policies. In 1857 in the United States extravagance led to excessive loans and unwarranted expansion of business. High interest rates soared from 25% to 100% until the transaction of business became impossible and the tradesmen, unable to carry on normal trading activities, began to liquidate their assets and contraction set in. Hoarding by the banks and individuals curtailed the circulation of money. The people demanded their savings from the banks, which led to the failure of the banks who were unable to recover their loans and of commercial and industrial institutions whose loans were called. The crisis of the panic lasted three or four months but the recovery did not come until more than two years later.

In 1873, the period of the American Civil War and the Franco-German War, railway, industrial and other construction work began all over the world on a scale previously undreamed of. These great developments involved colossal absorption of capital and the usual destructive competition. As always, when competition becomes unscrupulous, business morality suffers a slump. The high interest rates demanded needed only a setback to start a panic. It came, due largely to overdevelopment and speculation; beginning in Germany it spread world-wide. Bank deposits were withdrawn, loans unobtainable on collateral, money disappeared from circulation. The economic collapse lasted only three months but the real recovery did not come until 1879.

Once optimism rules, the inflated condition of things needs only a severe shock to bring disaster. It came again in 1882 with a severe financial panic convulsing France. Like the dreaded disease it is, it spread until all felt the effects of this depression. Failures were numerous, especially in the United States, with stocks falling from the

highest values to the lowest points of any date since 1879. Then with a period free from the economic juggling of destructive wars England began great railway and industrial development in her colonies. In such regions as South America and South Africa many speculative enterprises were launched; while in United States there came the usual waves of extravagance and abuse of credit which the banks were without power to control, that always seems to accompany optimism. This time the crisis started in England, extending to the other European countries reaching United States in 1893. It was accompanied by the usual runs on the banks, hoarding and difficulty in securing loans which again hampered business. The acute stage lasted forty days ending early in September. By 1st July 1897, business revival had set in in earnest, but in the interval the widespread business stagnation which followed 1893 brought great distress to the working man. It was an era of wars—the Second Boer War, Chinese-Japanese War, Spanish-American War and Russian-Japanese War. It was not until finally in the United States, the fear of free coinage of silver which had caused so much concern for many years was settled at the polls. The railways emerged from receivership with mergers and purchases, relations between capital and labour were adjusted and the United States entered a phase of the greatest development that country had ever known. Economy in administration, efficiency of production, and protection from destructive competition brought about an astounding growth of the nation's prosperity, but also a corresponding development of extravagance, with demands on capital reaching fabulous figures. Enormous money requirements which the credit resources were unable to meet, brought steady advances in interest rates. Finally the people once again found themselves beyond their depth, and began demands on their banks who called in their loans. The repercussions were felt all over the world. The United States Treasury increased its deposits at once, enabling the banks to outlive the runs. The investigations of the National Monetary Commission resulted in the Federal Reserve Act to act as a buffer in future situations.

#### **The Two World Wars**

Once again in 1914 the sudden outbreak of war at a

time of high interest rates and declining commodity prices brought on a crisis lasting four months but matters soon adjusted themselves by the increased earnings of war workers.

During the first world war the increased earnings and rising costs started a spiral of inflation, people outbidding each other for goods or services. The banks found themselves at the close of hostilities in an extended position. Money rates were high and in 1920 the over-expansion which had lasted five years reached the peak and collapsed. Living costs had risen until the consumer was unable to pay the prices demanded. Wheat dropped from \$2.75 to \$1.70 a bushel, corn from \$1.70 to 68c. Those who had made contracts at the high prices began to cancel them, threatening the structure of business morale. For twenty years the countries floundered about, until by a long and slow process they began to reach the point whereby the national incomes were again approaching a satisfactory level. This was not an easy struggle nor a smooth one. Mistakes were made frequently and many suffered, but let us hope we profited by these errors.

In September 1939 with the world once again involved in a war, the government of Canada stepped into the picture with controls never attempted before, determined to prevent exploitation of the public. Price ceilings have retarded unwarranted advances in prices, and the freezing of wages with increased taxation and lower exemption brackets have curtailed the buying power of the people; these have held living costs to reasonable levels. Rationing in some commodities has permitted a more even distribution of the available supplies. Rent control and new restrictions respecting the sale of houses prevent exploitation of the soldier's wife and the war worker.

### **The Outlook**

Vast government expenditures and the transition of thousands of workmen from peacetime industry to war production will have created a situation which we must face sooner or later. The creditmen and the bankers must act now to prepare so that, if the war should cease tomorrow or if we are to struggle on for years to come, we shall be ready to adjust our policies in order that we may enjoy the benefits of all the business we can for our respective

companies in those times, but organized so well that never again will young boys watch the ships carry food to be dumped at sea, while not far away others go hungry. Distribution must be perfected so that there shall not be companies at one end of the country crying for labour while our men wander the streets penniless at the other. We know we can produce the weapons of war. We know that it will be just as much our duty to produce the means of peace as it has been our duty to preserve the freedom of the people by making it possible for all nations to enjoy the privileges we have had.

We know now our abilities are unlimited when once we have determined that our ideals shall prevail. The success our government has had during these war years has only been possible by the willingness of the people to sacrifice for the sake of those who fight. We must be ready to sacrifice for those to whom we have brought freedom. The little men, the working men, you and I, must be ready to protect our freedom by making freedom worthwhile to all. The Beveridge plan which has been hailed by the press and the people is the first step in our fight for freedom against want and privation. It is the first example of a sane application of ideals in our capitalistic system.

We do not wish to sacrifice our form of government but we jeopardize our very foundation unless we are willing to accept this war as a sign of failure on our part. With this in mind we must set about to cast out those factors which meant failure, and accept new ideals. Our government is the finest type in the world to us but we cannot permit our love for our country to close our eyes and our thoughts to ideas which will perpetuate and enhance our freedom as individuals.

## TABLE OF EXCHANGE RATES

(Kindly supplied by The Canadian Bank of Commerce, Toronto)

	30 June 1943	15th July 1943
U.S. Dollars .....	10-11% P.	10-11% P
Sterling .....	443-447	443-447
Australian Pounds .....	358½	358½
New Zealand Pounds .....	360	360
South African Pounds .....	443	443
British West Indies—Dollars .....	9270	9270
India—Rupees .....	3356	3356
Hong Kong—Dollars ..... (Custodian rate)	2781	2781
Straits Settlements—Dollars (Custodian rate)	5226	5226
Sweden—Kronor .....	2635	2635
Switzerland—Francs .....	2569	2569

*Note:* The above currencies are expressed as follows: Pound currencies—Canadian cents per unit; Continental currencies and sundry British Empire—Canadian cents per 100 units.

## Wartime Taxation and Public Utility Companies

By E. R. Roach

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Edmonton, Alberta

**T**HE war, and its resultant heavy increase in taxation, together with the regulations and restrictions necessary in a wartime economy, have undoubtedly imposed some hardships on business enterprises.

Public utility companies, whose rates are fixed by commissions or other regulatory bodies, are today faced with the problem of increasing taxation with its resultant effect on the rate of return. In this respect they are not alone. It should be remembered, however, that a utility, unlike other businesses, is controlled at all times and, therefore, has little, if any, opportunity of building up its reserves in times of prosperity. A public utility can only charge for the service it renders a rate or rates sufficient to pay operating expenses and yield a reasonable return on its rate base.

The treatment of normal income taxation in the accounts of public utility companies seems to have been fairly well established in decisions given by judicial and other authorities in the United States. Some years ago, the question arose as to whether income tax should be treated as an



operating expense like any other tax and be passed on to the consumer in the form of higher rates for service or whether it should be treated as a deduction from income and thus a reduction of the fixed rate of return.

#### Some Legal Decisions

In *Consolidated Gas Co. vs. Newton* 267, Fed. 231, P.U.R. 1920, F. 483, the opinion of the court was that income tax should be paid as an operating expense.

In *Galveston Electric Company vs. Galveston* 272, Fed. 147, P.U.R. 1921, D 547, Judge Hutcheson in the United States District Court of the Southern District of Texas took a different view. In this case, the city of Galveston took exception to the inclusion of income tax in operating expenses and the court upheld its contention. This judgment, however, was reversed on appeal to the United States Supreme Court, P.U.R. 1922, D 159. Mr. Justice Brandeis, in delivering the opinion of the Supreme Court, held that income tax was to be included in operating expenses the same as any other tax but remarked that the fact of this deduction should be taken into consideration in determining fair return.

In *re Philadelphia Rapid Transit Company*, P.U.R. 1926, B 385, the Pennsylvania Public Service Commission considered the proper treatment of the different kinds of taxes paid by the company. With respect to income tax, it followed the rule in the Galveston case as interpreted by the Pennsylvania Superior Court. On this subject the Commission said:

"The Federal corporate income tax is assessed at the flat rate of twelve and one-half per cent on all net corporate incomes. The amount of the tax is no different in the case of an operating utility which itself keeps all of its income than where it is divided with lessor companies. To disallow in a leased system an expense which would be allowed in an owned system does not appear to be sustainable as a proposition of law. The whole total of income taxes should therefore be handled as prescribed in the Galveston case, *supra*. The rule of the Galveston case directs, first, that the federal corporate income tax be included in the operating budget; second, that because the resulting tax exemption to the stockholder is an enhancement of his return, the



fact of the inclusion must be borne in mind in fixing fair return."

The principles enumerated in the foregoing decisions appear to have been followed in the *Final Report re Pipe Line Matters of the Royal Commission on Petroleum and Petroleum Products*, issued by the province of Alberta in 1938. In arriving at a service rate for transporting petroleum or petroleum products from Turner Valley to Calgary, the commissioners included an allowance in operating expenses for income tax at the rate in effect at the time of the inquiry.

### Should High Taxes be Passed On?

Assuming that income taxation, at normal rates, is a proper operating expense of a utility, the question now arises as to whether or not regulatory authorities should allow an increase in the rates charged for service in order to provide for heavy increases in taxation during the present emergency. In other words, should the consumer of the commodity sold or the user of the service given be required to bear the whole burden of increased taxation in the form of higher rates for service or should the utility be required to assume all or at least a portion of the burdens imposed by global war. There are several factors which must be considered in any discussion on the subject.

Let us assume that a utility has a service rate, established in normal times, sufficient to enable it to pay operating expenses, including income tax, and earn say ten per cent on its capital investment. Can it be seriously argued that the utility is entitled to continue to earn its ten per cent despite the fact that all business enterprises are seriously affected by wartime taxation? One argument advanced in support of maintaining the fixed rate of return is that utilities have no opportunity to make large profits in times of prosperity and therefore should not be penalized in a pinch. While it is true that rate regulation and control precludes the earning of large profits in good times, yet on the other hand there are undoubted benefits arising therefrom. A utility is guaranteed a reasonable return on its investment and in addition is protected against price competition and cut-throat business practices. These factors alone are surely worth something. It seems only right that during times of national emergency, all classes of society

both corporate and individual should be prepared to contribute their share to the common cause.

#### **War Controls a Factor**

Another factor which enters into any discussion on rate increases is the effect they would have on the country's war-time economic policy. War and inflation go hand in hand and without the most rigid control prices of consumer goods and services would rise steadily. Both the Canadian and the United States governments have recognized this fact as exemplified by the creation of the Wartime Prices and Trade Board in Canada and the Office of Price Administration in the United States. These administrative bodies have an over-riding authority in their respective countries and examine very carefully any changes which will result in an increase in the cost of living.

The following extract from a letter written by Leon Henderson, formerly of the office of Price Administration, to Senator Norris of Nebraska, published in the Congressional Record of September 10th, is indicative of the attitude of that body towards utility rate increases:

"Our survey of pending electric rate cases does not now indicate a large number of applications for rate increases. However, there is now an upward trend in the number of requests for rate increases before the state commissions which seems to be due primarily to efforts to shift war taxes upon the utilities to their consumers.

"The gas rate problem appears to be more troublesome at this time. Among the cities where increases have recently been made or are now pending are Boston, Philadelphia, Cleveland, Minneapolis and Washington, D.C.

"We are now or will oppose most of these increases, particularly because they adversely affect the cost of living of practically the entire population of those cities."

The foregoing is an indication of the reception which applications for rate increases will receive before the authority of which Mr. Henderson was the head, even if such applications have been successful before a state commission.

#### **U.S. Federal Power Commission**

The following extract from the decision of the United States Federal Power Commission in the case of *City of Detroit vs. Panhandle Eastern Pipe Line Company*, (Public

Utilities Fortnightly, Vol. XXX, No. 11, p. 219), lays down the principles which that Commission will follow in connection with applications for rate increases:

"While we have arrived at certain definite conclusions in disposing of the motions for an interim order reducing rates herein, the tax problem posed by legislation pending in the Congress makes it imperative that we make further comment on this subject.

"We take judicial notice of the fact that our country is waging a war for survival. It is common knowledge that there will be increased tax burdens resulting from the requirements inherent in a global conflict. Business as usual is out—in fact, a great many so-called 'small enterprises' have ceased to exist. Normal business during this period of grave emergency is at an end. Obviously no one can expect to maintain a status or condition of business unaffected by the holocaust now sweeping the world. Increased tax burdens must be borne by the utility which enjoys a monopolistic position in the economic field, as well as by others who have no such advantage.

"Proposals now pending in Congress to raise additional taxes are required to defray in part, greatly increased expenditures resulting from the war effort. In this regard the report of the house committee on Ways and Means, considering the proposed Revenue Bill of 1942, after first pointing out that 'the cost of the war effort is placing upon the nation a financial burden unequalled in our history', states:

"It is thus apparent that our revenue needs are extreme and your committee have endeavoured to secure every dollar of additional revenue which, in its opinion, the national economy can bear. In its effort toward this objective, however, care has been exercised in every instance not to place an unbearable burden upon any taxpayer."

"Moreover, the president in his message to Congress, July 30, 1941, requesting enactment of legislation for control of prices, stated:

"Inflationary price rises and increases in the cost of living are today threatening to undermine our defence effort."

"Thus it appears that the doctrine of unjust enrichment as well as equity and good conscience compel the conclusion that a utility should not be permitted to thwart the purpose and spirit of the war price control legislation and the rev-

enue laws by passing such abnormal tax requirements along to its consumers as an operating expense to be collected in increased rates. Indeed, we feel increased rates on such a basis would be unjustifiable. To allow them would in effect impose upon the consumers a sales tax.

"So that there may be no confusion concerning the tax situation in connection with the companies subject to our jurisdiction, where necessary to stabilize utility rates at reasonable levels during the war emergency period, we propose to allow as proper operating expenses only such taxes as may be termed ordinary or normal. For the purpose of distinguishing between ordinary or normal and war emergency or abnormal taxes, we conclude that the basis prescribed in the 1940 Revenue Act establishes the highest possible level of federal taxes which may be allowed as an element of operating expense for such purpose. The 1941 Revenue Act and the pending 1942 proposal certainly reflect abnormal tax requirements for war purposes.

"The conclusions we here express find validity in utterances of other regulatory bodies who were confronted with the problem of abnormal tax requirements in dealing with the utility industry as a result of the first world war. Furthermore, the Public Service Commission of Wisconsin, on May 5, 1942, 43 P.U.R. (NS) 193, 195, disapproved the application of the Wisconsin Telephone Company for authority to revise the base rate area and the rates at its Madison exchange, a proposal estimated to increase the cost of telephone service to the subscribers in that area \$290,000 annually. In its opinion, denying such request the Wisconsin Commission made this significant comment:

"We do not look with favor upon proposals to increase utility rates in these times . . . rates should not be increased solely because the management may consider that its return is less than it is entitled to ask in normal times."

"Moreover, it is evident that Congress intended when it enacted the Emergency Price Control Act of 1942, that during the prosecution of the present war this Commission, in carrying out its regulatory responsibilities, should make every reasonable effort to assist in making effective the national policy of price stabilization. In this regard we will be alert to the necessity for checking unwarranted increases in utility rates which, if permitted, will contribute

to the disruptive inflationary process now threatening to destroy our economy."

#### **The Canadian Viewpoint**

While the foregoing opinions are not, of course, binding on regulatory authorities in Canada, they do indicate the line of thought which the Federal Power Commission and the Public Service Commission of Wisconsin, as well as the Office of Price Administration, are pursuing on this particular subject. Regulatory bodies in Canada must look for guidance, at least to some extent, to their counterparts south of the border, if only for the reason that rate regulation in the United States is, in the main, of a much more complex nature than in Canada. As a result, it is reasonable to assume that public utility commissions in this country when dealing with applications for rate increases will take into consideration decisions already delivered by similar bodies in the United States. Every case must necessarily be dealt with on its merits, but principles would likely be based upon decisions given in similar applications before other regulatory authorities.

There is no reason to believe that the public utility companies will launch an avalanche of applications for rate increases to compensate for increased costs due to the war effort. On the other hand should such applications become a reality, the decisions of the Canadian authorities will be most interesting.

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### **Current Accounting Literature**

**A**UDITING procedures for government receivables is the subject of a short article in the July issue of *The Journal of Accountancy* (13 East 41st St., New York) by Jackson W. Smart, who is a member of the committee on accounting procedure of The American Institute of Accountants. Recognizing that it may be impracticable or impossible to confirm receivables from government agencies by direct communication, he describes alternative procedures and explains their application.

#### **The Manpower Problem in Accountancy**

In view of the difficulties being experienced in Canada in respect to both accounting and auditing personnel, a

statement by the American Institute of Accountants' committee on accounting manpower, recently presented before a U.S. Senate committee, and printed in the July issue of *The Journal of Accountancy*, is of special interest. The accountants' committee expresses the belief that "the most effective use of technical accounting personnel in the prosecution of the war requires the establishment of a central agency with authority to make conclusive recommendations for deferment of trained and experienced accountants from military service". It sums up the numerous new burdens which have been thrust upon the profession through wartime activity, and concludes with questions and answers in the Senate hearing.

#### **Financial Statements in Wartime**

"Financial Statements in Wartime" is the subject of an article by C. Oliver Wellington, past president of The American Institute of Accountants, in the July issue of *The Journal of Accountancy*. He emphasizes such points as the tentative character of statements, post-war reserves, taxation and special loans.

#### **War Contracts**

The live questions of termination and renegotiation of war contracts are dealt with in two articles in the July issue of *The Journal of Accountancy*. One article on termination is by George S. Olive, president of the American Institute of Accountants; in it he summarizes fifteen recommendations with respect to government policy and accounting and auditing procedures in contract termination, submitted by a committee of the Institute. The other article, entitled "Renegotiation, Termination, and Costs", is by Maurice E. Peloubet; observing that the principles and possibly the machinery of renegotiation will ultimately be applied to the termination of war contracts, he comments on provisions of the present renegotiation statute and proposes amendments.

#### **Industrial Accounting Control**

"Some Problems of Wartime Industrial Accounting Control" are dealt with in the 1st July 1943 bulletin of The National Association of Cost Accountants (385 Madison Ave., New York) by Clinton W. Bennett. The war has produced many new problems and resulted in some changes

## PERSONALS

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in industrial accounting practice. Additional adjustments will be needed as we make the transition from war to peace. Mr. Bennett provides both the backward look and the forward appraisal. At the same time he provides a good outline of the industrial accounting fundamentals which are applicable in times of war as in times of peace.

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## PERSONALS

Albert Freedman, chartered accountant, formerly associated with William Eisenberg and Company, Toronto, announces that he has opened an office for the practice of his profession at 55 Brunswick Avenue, Toronto.

Messrs. Henry Glover and Company, Federal Building, Toronto, announce the admission to partnership of Henry S. Glover, chartered accountant.

Frank A. Nightingale, chartered accountant, of Halifax, past president of The Dominion Association of Chartered Accountants, was elected first vice-president of Gyro International at its annual meeting in Toronto, Ontario, 7th-10th July 1943. The retiring president, who becomes immediate past president, is also a Canadian chartered accountant—R. G. McA. Rutherford of Kelowna, British Columbia. The new president is Harold Darling of New York.

Messrs. Winspear, Hamilton and Company, chartered accountants, Edmonton, announce the opening of an office under the firm name of Winspear, Hamilton, Anderson and Company for the practice of their profession at 311 Bank of Nova Scotia Building, Vancouver, with W. M. Anderson, B. Com., C.A., as resident partner.

Mr. J. Ross Henderson, B. Com., C.A., and Mr. Kenneth C. Teare, C.A., announce the admittance into partnership of Mr. Francis D. Waines, B.Sc., C.A., who has been associated with them for many years. The partnership will be carried on as heretofore at 616-618 Lancaster Building, Calgary, under the name of Henderson, Teare & Waines, chartered accountants.



## OBITUARIES

### The Late Donald S. Hart

The Institute of Chartered Accountants of Nova Scotia announces with deep regret the loss of one of its highly esteemed members in the sudden passing of Donald S. Hart, whose death occurred at Halifax, Nova Scotia, on 3rd June 1943 in his sixty-fourth year.

Admitted to membership in 1926, he was elected to the office of president during 1932. The late Mr. Hart was also a member of the Institute of Chartered Accountants of Prince Edward Island and had served that Institute as well in the office of president. Among the older members of the Association he will be remembered for his work in connection with the latter Institute.

Prior to his entering public practice in 1928, Mr. Hart was employed in the Halifax office of the department of national revenue, income tax division, and was well and widely known throughout the maritime provinces.

Born in Margaree, Cape Breton, he retained throughout his life a deep interest in his birthplace and, as a hobby, wrote historical notes on Cape Breton in general, and Margaree in particular. His writings also contain many humorous Cape Breton anecdotes. Socially he was a member of the Masonic order, the Waegwoltic Club and the City Club.

Of a most kindly and genial disposition, he will be greatly missed not only by his family and associates but also by a host of friends throughout the maritimes.

He is survived by his wife, a daughter and a son. The latter, Mr. John G. Hart, was associated with his father in professional practice. To Mrs. Hart and the other members of his family the Institute extends sincere sympathy in their loss.

### The Late Arthur Edward Phillips

The Institute of Chartered Accountants of Manitoba regrets to report the death of Mr. Arthur Edward Phillips, which occurred at Victoria, British Columbia, on 3rd June 1943.

Mr. Phillips had been a member of the Institute since 1912. In 1913 he acted as secretary of the Dominion Association convention which was held that year in Winnipeg.



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He served on the council of the Institute from 1914 to 1916 and from 1919 to 1927.

In the summer of 1915 he joined the 90th Battalion of Winnipeg Rifles and in the spring of 1916 went overseas with that battalion with the rank of Captain. On his arrival overseas, he was transferred to the pay and accounting branch of the Canadian army and subsequently became a staff officer. He returned to Winnipeg in 1919 with the rank of major and resumed the practice of his profession which he continued until 1941 when, owing to ill health he retired, and went to live in Victoria, British Columbia.

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R. G. H. SMAILS, C.A., Editor

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### NOTES AND COMMENT

In a lecture delivered to a joint meeting of chartered and incorporated accountants and reproduced in *The Accountant* of May 8 last Mr. de Paula raised once more the question of the professional education of accountants. The English Institute is an examining and not an educational body in the sense that it still relies on the apprenticeship system and does not itself organize any instruction for articled clerks though some of the district societies have from time to time arranged series of lectures for students. The result has been that candidates for examination have had to place themselves in the hands of commercially operated tutorial concerns and examinations "take the form of a battle of wits between the examiners and commercial tutors, with the unfortunate candidates as mere pawns in the game". In this respect therefore the English discussion is irrelevant because for many years now the several provincial Institutes in this country have assumed a responsibility for educating as well as examining their students.

What is of interest here is the critical attitude adopted by all those who have taken part in the English controversy towards the correspondence course and the insistence by Mr. de Paula that if the education of accountants is to compare with that for the older professions such as law and medicine the accountant must take an intra-mural univers-

ity course whose content would be worked out by consultation between the accountancy bodies and the universities.

That the correspondence method has serious limitations cannot be denied and particularly objectionable is the feature that the whole of the student's theoretical study has to be done at night after a full day's practical work. We incline to believe however that in purely technical as distinct from cultural education the correspondence method is not at such a disadvantage as the English controversialists assume, for in technical fields a large amount of written practice work is essential and this can be provided at least as well and perhaps better by a correspondence course. The essential thing is that the correspondence course should be designed as a technical education and not as a cramming for examinations.

Perhaps the ideal procedure would be to require all entrants to the profession to have completed a residential university course with a syllabus whose emphasis would be on economics (theoretical and applied) and then when they registered as students-in-practice, to impose a correspondence course in advanced accountancy and auditing—a course in directed readings with very much less exercise work than is involved in the correspondence courses at present in use.

On one point there can be no difference of opinion—if our profession is to hold its own in the brave new world its members must be not merely technicians but men of broad culture in economic and business affairs.

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A corollary of Mr. de Paula's plea for a college education for all accountants is his insistence on the importance of research work and the impossibility of effective research being accomplished by committees composed of practising accountants. We quote him on this point: "A further advantage of paramount importance would be that these schools would be in a position to undertake research work for the profession. For this, I have always felt, there is a crying need. There are so many important problems that require thinking out, but we have no time for this, as we are all so pressed with our day-to-day affairs as are the practitioners of all professions. It is for this obvious reason that the older professions have developed research work by trained workers upon a full-time basis. Only upon these

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lines is real progress possible. This is a vital problem, that, it seems to me, requires the serious consideration of the profession. The older professions have all arranged for a 'thinking department' staffed by academically trained staff, but we have not made any similar provision."

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### PROBLEMS AND SOLUTIONS

#### THE PROVINCIAL INSTITUTES OF CHARTERED ACCOUNTANTS

Solutions presented in this section are prepared by practising members of the several provincial Institutes and represent the personal views and opinions of those members. They are designed not as models for submission to the examiner but rather as such discussion and explanation of the problem as will make its study of benefit to the student. Discussion of solutions presented is cordially invited.

#### PROBLEM I

##### INTERMEDIATE EXAMINATION, DECEMBER 1942

##### Accounting I, Question 4 (10 marks)

In setting up the balance sheet of a corporation which has an issue of 100,000 shares of no par value, you find 50,000 shares were issued for fixed assets at a value of \$500,000 and the remaining 50,000 shares were issued for cash at \$8.00 per share. The company had an operating deficit at 31st December 1940 of \$126,240. How would you show the capital on the balance sheet and why?

#### SOLUTION

The capital and deficit would be shown on the balance sheet as follows:

Share capital:

Authorized and issued:

100,000 shares of no par value .. \$900,000.00

Deficit:

Deficit from operations ..... 126,240.30 \$773,759.70

The shares of no par value must be recorded at the values for which they were issued (see Dominion Companies Act, Sec. 112).

The deduction of the deficit from the recorded value of the shares is a logical and the only appropriate treatment, as the deficit is, in fact, an impairment of the shareholders' equity. If this presentation be objected to on the technical legal ground that it constitutes a reduction of capital for which a special statutory procedure is provided (see Dominion Companies Act, Sec. 49) it can be justified as merely a convenient way of indicating a fact, which, however unpleasant, is evident, that some portion of the capital paid is not represented by available assets. The required statement of the consideration for which the shares were issued is fully met. In fact, the ascription to no par value shares of the net value of the assets is particularly appropriate having in mind that one of the original ideas in adopting this form of share capital was to avoid the setting up of representative values which generally did not correspond with stated actual worth of the shareholders' equities.

But even with shares of par value, the same presentation is adopted in preference to that of placing the deficit on the asset side of the balance sheet, the deficit being a measure of the absence of assets.

THE CANADIAN CHARTERED ACCOUNTANT

**PROBLEM II**

**FINAL EXAMINATION, DECEMBER 1942**

**Accounting III, Question 1 (35 marks)**

As at 30th November 1942 the trial balances of A Limited, B Limited and C Limited are as follows:

Debits:

	<i>A Limited</i>	<i>B Limited</i>	<i>C Limited</i>
Cash on hand and in banks .....	\$ 200,000	\$ 10,000	\$ 20,000
Accounts receivable .....		100,000	200,000
Inventories as at 30th November 1942 .....		150,000	350,000
Fixed assets .....		500,000	600,000
Inter-company accounts receivable .....		20,000	
Cost of sales .....		700,000	1,400,000
Expenses .....	5,000	200,000	300,000
Provision for taxes on profits ...		40,000	120,000
Dividends paid .....	50,000	140,000	100,000
Investment in subsidiary company .....	2,000,000	1,000,000	
	<u>\$2,255,000</u>	<u>\$2,860,000</u>	<u>\$3,090,000</u>

Credits:

Accounts payable .....		\$ 75,000	\$ 150,000
Reserves for taxes on profits ....		40,000	120,000
Inter-company accounts payable ..			10,000
Capital stock .....	\$2,000,000	1,500,000	700,000
Surplus as at 30th November 1941 ..	115,000	155,000	110,000
Sales .....		1,000,000	2,000,000
Dividends received .....	140,000	90,000	
	<u>\$2,255,000</u>	<u>\$2,860,000</u>	<u>\$3,090,000</u>

A Limited purchased all the capital stock of B Limited on 30th November 1939 for \$2,000,000; the surplus of B Limited at that date was \$50,000.

B Limited purchased 90% of the capital stock of C Limited on 30th November 1940 for \$1,180,000; the surplus of C Limited at that date was \$250,000. On 1st December 1940 C Limited paid a dividend of \$200,000 and B Limited credited the proportion of the dividend which it received to its investment in subsidiary company account.

Inter-company sales from B Limited to C Limited in the year ending 30th November 1942 amounted to \$500,000. Inter-company profit in inventories with respect to goods sold by B Limited to C Limited: 30th November 1941, \$20,000; 30th November 1942, \$30,000. A cheque issued by C Limited on 30th November 1942 payable to B Limited for \$10,000 was not received by B Limited or recorded on its books until 1st December 1942.

*Required:*

Prepare consolidating journal entries and consolidating statements of profit and loss, surplus and balance sheet of A Limited and subsidiary companies as at 30th November 1942.

Note: The consolidating statements should be prepared on columnar paper so as to show first the figures for B Limited consolidated with C Limited and then the consolidation of B Limited as consolidated with A Limited. Consolidated statements need not be submitted.

## STUDENTS' DEPARTMENT

## SOLUTION

## A LIMITED AND ITS SUBSIDIARIES

## CONSOLIDATING STATEMENT OF PROFIT AND LOSS AND SURPLUS YEAR ENDING 30th NOVEMBER 1942

Item	B Limited	C Limited	Consolidating entries		B Limited Consolidated	A Limited Consolidated	Consolidating entries		A Limited Consolidated
			Debit—Credit				Debit—Credit		
Sales .....	\$1,000,000	2,000,000	(3)	500,000	2,500,000	2,500,000			2,500,000
Cost of sales .....	700,000	1,400,000	(4)	10,000	1,610,000	1,610,000			1,610,000
			(3)	500,000					
Gross profit .....	\$ 300,000	600,000		10,000	890,000	890,000			890,000
Expenses .....	200,000	300,000			500,000	5,000			505,000
Dividends received .....	\$ 100,000	300,000	(7)	90,000	390,000	5,000	(2)	140,000	385,000
Provision for taxes on profits ...	\$ 190,000	300,000		100,000	390,000	135,000			385,000
	40,000	120,000			160,000				160,000
Balance of profits .....	\$ 150,000	180,000	(6)	18,000	230,000	135,000			225,000
Minority interest in profits for year					18,000				18,000
Net profit for the year ..	\$ 150,000	180,000		118,000	212,000	135,000			140,000
Surplus at 30th November 1941 ..	155,000	110,000	(4)	20,000	189,000	115,000	(1)	50,000	207,000
			(2)	6,000					254,000
			(1)	50,000					
Dividends paid .....	\$ 305,000	290,000		194,000	401,000	250,000			190,000
	140,000	100,000	(7)	90,000	140,000	50,000	(2)	140,000	461,000
			(6)	10,000					50,000
Surplus at 30th November 1942 ..	\$ 165,000	190,000		94,000	261,000	200,000			411,000

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CONSOLIDATING BALANCE SHEET—AS AT 30th NOVEMBER 1942

Item	B Limited		C Limited		Consolidating entries		B Limited Consolidated		A Limited		Consolidating entries		A Limited Consolidated	
					Debit—Credit						Debit—Credit			
<b>Assets:</b>														
Cash on hand and in banks ..	\$ 10,000	20,000	20,000	(5)	10,000		40,000		200,000				240,000	
Accounts receivable .....	100,000	200,000	200,000				300,000		300,000				300,000	
Inventories .....	150,000	350,000	350,000	(4)	30,000		470,000						470,000	
<b>Fixed Assets</b> .....	\$ 260,000	570,000	570,000		20,000		810,000		200,000				1,010,000	
Inter-company accounts receivable .....	500,000	600,000	600,000	(5)	20,000		1,100,000						1,100,000	
Investment in subsidiary company .....	20,000													
Goodwill .....	1,000,000			(1)	1,000,000				2,000,000	(1)	2,000,000			
				(1)	325,000		325,000			(1)	450,000		775,000	
	\$1,780,000	1,170,000			715,000		2,235,000		2,200,000		1,550,000		2,885,000	
<b>Liabilities:</b>														
Accounts payable .....	\$ 75,000	150,000					225,000						225,000	
Reserve for taxes on profits ..	40,000	120,000					160,000						160,000	
<b>Inter-company accounts payable</b>	\$ 115,000	270,000					385,000						385,000	
Minority Interest		10,000		(5)	10,000									
				(2)	6,000		89,000						89,000	
				(1)	75,000									
				(6)	8,000									
Capital stock .....	1,500,000	700,000		(1)	700,000		1,500,000		2,000,000	(1)	1,500,000		2,000,000	
Surplus .....	165,000	190,000			94,000		261,000		200,000		50,000		411,000	
	\$1,780,000	1,170,000			715,000		2,235,000		2,200,000		1,550,000		2,885,000	

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## CONSOLIDATING JOURNAL ENTRIES ON CONSOLIDATION OF B LIMITED AND C LIMITED

30th NOVEMBER 1942

(1)	Dr.	Cr.
Capital stock .....	\$ 700,000	
Surplus as at 30th November 1941 .....	50,000	
Goodwill .....	325,000	
Minority interest in capital and surplus		\$ 75,000
Investment in subsidiary company ...		1,000,000
To eliminate investment against capital stock and surplus at acquisition:		
Cost of 90% of shares of C. Lim- ited at 30th November 1940. \$1,180,000		
Less—Dividend paid out of ac- quisition surplus—\$200,000		
—90% .....	180,000	
	<u>\$1,000,000</u>	
Capital stock of C Limited .....	\$ 700,000	
Surplus at date of ac- quisition .....	250,000	
	<u>\$950,000</u>	
Less—Dividend paid 1st December 1940 .....	200,000	
	<u>\$750,000</u>	
Minority share 10% .....	75,000	
Proportion applicable to shares held by B Limited .....	675,000	
Goodwill .....	<u>\$ 325,000</u>	

(2)		
Surplus as at 30th November 1941 .....	\$ 6,000	
Minority interest in capital and surplus		\$ 6,000
To set up minority interest in increase in surplus from 1st December 1940 to 30th November 1941.		
Surplus 30th November 1941 ...	\$ 110,000	
Less—Surplus at 1st December 1940 after payment of divi- dend .....	50,000	
Increase in surplus ...	<u>\$ 60,000</u>	
Minority proportion 10% .....	<u>\$ 6,000</u>	

(3)		
Sales .....	\$ 500,000	
Cost of sales .....		\$ 500,000
To eliminate inter-company sales from B Limited to C Limited.		

THE CANADIAN CHARTERED ACCOUNTANT

(4)

Surplus as at 30th November 1941 .....	\$ 20,000	
Cost of sales .....	10,000	
Inventories .....		\$ 30,000
To eliminate inter-company profit on goods sold by B Limited to C Limited and in inventories of C Limited at 30th November 1942.		

(5)

Inter-company accounts payable .....	\$ 10,000	
Cash .....	10,000	
Inter-company accounts receivable ....		\$ 20,000
To eliminate inter-company accounts and set up cash in transit.		

(6)

Minority interest in profits for year ending 30th November 1942 .....	\$ 18,000	
Minority interest in capital and surplus		\$ 8,000
Dividends paid .....		10,000
To record minority interest in profit for year, dividends received by minority shareholders and increase in minority interest.		

(7)

Dividends received .....	\$ 90,000	
Dividends paid .....		\$ 90,000
To eliminate inter-company dividends.		

CONSOLIDATING JOURNAL ENTRIES ON CONSOLIDATION  
OF A LIMITED AND B LIMITED CONSOLIDATED  
30th NOVEMBER 1942

(1)

	Dr.	Cr.
Capital stock .....	\$1,500,000	
Surplus .....	50,000	
Goodwill .....	450,000	
Investment in subsidiary company ....		\$2,000,000
To apply investment in B Limited against capital stock and surplus of B Limited at acquisition and set up difference as goodwill		
Investment in B Limited .....	\$2,000,000	
Capital stock of B Limited .....	\$1,500,000	
Surplus of B Limited at date of acquisition .....	50,000	1,550,000
Goodwill .....	\$ 450,000	

(2)

Dividends received .....	\$ 140,000	
Dividends paid .....		\$ 140,000
To offset inter-company dividends.		



